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Delivered by Email to CIIT@parl.gc.ca

Christine Lafrance, Clerk
Standing Committee on International Trade
Sixth Floor, 131 Queen Street
House of Commons
Ottawa ON K1A 0A6
Canada

Re: Impact of Tariffs on Canadian Businesses, Companies, and Workers

The Canadian Coalition for Construction Steel

1. We write you on behalf of the Canadian Coalition for Construction Steel (**CCCS**), whose members and supporters represent construction steel suppliers, fabricators, and purchasers from across Canada. Our members provide the steel to build affordable housing for Canadians, critical infrastructure like roads, bridges, airports and dams, and some of Canada's most iconic structures, like the Canadian War Museum, the new roof of the West Block of Parliament, and the new Champlain Bridge in Montreal.

2. The CCCS is supported by numerous national and provincial construction associations, engineering companies, trade associations and labour unions, which depend on a sustainable Canadian construction sector.

3. The CCCS was formed out of concern that the Government of Canada is contemplating a global emergency safeguard on steel products imported into Canada, which could restrict non-U.S. imports of essential construction steel products like concrete reinforcing bar (**rebar**), steel wire rod, structural steel plate, angles and beams. A safeguard on construction steel – whether in the form of tariffs, quotas, or both – would be bad policy:

it would exacerbate national and regional supply problems, raise construction steel prices, and damage the Canadian economy.

4. At its June 26 meeting, the Committee heard from a number of primary steel producers, and the unions that represent their workers, on the potential impact they faced from the U.S. Sec 232 tariffs. The CCCS sympathizes with Canadian steel manufacturers and workers on the inappropriate 232 tariffs and supports the federal government's measured response to date to the unjustified U.S. tariffs. Since that meeting, the Government has responded by imposing retaliatory tariffs on imports of steel and other products from the United States. We understand the difficult choices the Government had to make in deciding which products to target with its countermeasures, and we accept that Canada's 25% retaliatory tariffs on U.S. steel have fallen heavily on products our members historically have imported from the United States due to a lack of available supply from Canadian sources. Our members have and continue to "do their part", and then some, as Canada deals with this difficult issue.

5. The Committee also heard repeated requests from primary steel producers such as ArcelorMittal and the Canadian Association of Steel Producers for global safeguard measures. The CCCS opposes these requests for the reasons detailed in this brief.

6. In summary, a global safeguard on imports of construction steel will be a self-inflicted wound to our economy. Safeguard measures will reduce supply and further increase prices for construction steel, which will jeopardize residential, commercial, and public infrastructure projects across the country. Tens of thousands of well-paying jobs will be lost, and housing will become less affordable.

7. The CCCS therefore urges the Committee to recommend that the Government *not* initiate a global safeguard on construction steel and that any further measures the Government does take should be carefully targeted to avoid unnecessary harm to the Canadian economy.

A global emergency safeguard is an extraordinary measure

8. As a matter of trade policy and law, a global emergency safeguard is an extraordinary measure. Unlike anti-dumping and countervailing duties, which are designed to remedy unfair trade practices, safeguards are designed to insulate specific domestic industries from *fairly* traded goods. Safeguards can only be implemented in response to an import *surge* that is causing or threatening to cause *serious injury* to domestic industries. In the case of construction steel there is no credible evidence of either.

9. Safeguards also invite retaliation from our trading partners. Under WTO rules, if Canada imposes a safeguard it must compensate the other WTO Members whose trade is affected, failing which, those Members may be entitled to retaliate, for example by raising their own tariffs on Canadian goods.

10. It therefore is unsurprising that since the WTO Agreement came into effect in 1995, Canada has seriously considered safeguard measures on only two previous occasions but has never imposed them. Canada already has an effective antidumping and countervailing regime that can, and does, tackle unfair trade practices, including for steel. Many foreign sources of steel – from China, Korea, Taiwan, Turkey, India, Oman, Thailand, UAE, Belarus, Hong Kong, Japan, Portugal, Spain, Brazil, India, Indonesia, Philippines, Vietnam, Bulgaria, Czech Republic, Romania, Italy, Denmark, and Ukraine – are already

subject to antidumping or countervailing duties, or both and are therefore effectively excluded from the Canadian market. The Canadian primary steel producers are the most prolific users of the *Special Import Measures Act*, by a significant margin.

Construction steel supply issues in Canada

11. It is uncontroverted that Canadian steel producers are unable to produce enough construction steel to meet existing demand in Canada. For example, construction projects in Canada require approximate 1.2 million metric tonnes of rebar annually, while domestic producers can supply only about 600,000 metric tonnes.

12. The gap between domestic capacity and demand has historically been filled by imports, approximately half of which have come from the United States and the other half from offshore mills. However, this year our members are witnessing a precipitous drop in supply of U.S. steel as a result of the U.S. sec. 232 tariffs, which have increased demand in the U.S. for domestic production, and in response to Canadian retaliatory tariffs. As Canadian demand for rebar continues to grow, driven in part by the needs of high-density housing construction, the industry must turn to offshore suppliers to make up for the loss of U.S. supply.

13. At a regional level, supply issues are particularly acute because the majority of Canadian domestic production is located in central Canada. British Columbia and Atlantic Canada face unique issues in sourcing construction steel due to prohibitively high transportation costs and other transportation problems endemic to Canada's geography and relatively small population. Many of our members in British Columbia and Atlantic Canada have

little or no access to domestic construction steel. We have highlighted the situation in B.C. more specifically below.

14. Furthermore, the domestic steel industry simply does not produce many of the products our members require. For example, corrosion-resistant rebar such as stainless or coated rebar is not produced by domestic mills. These inputs are essential for critical public infrastructure projects such as roads, bridges, dams, airports and ports and must be sourced from outside Canada.

15. Similarly, 10mm rebar, referred to as "10M", is rarely produced by domestic mills because it is expensive and relatively unprofitable to roll. With domestic producers operating at or near actual capacity, our members are unable to source 10M from Canada mills because those mills are choosing to produce more profitable products instead. Because 10M is an essential product used in many construction applications, it must be sourced from the United States or third countries.

16. Corrosion-resistant rebar and 10M rebar from the United States are already subject to Canada's 25% retaliatory tariffs. With domestic production negligible or non-existent, imports of these products from third countries are essential to meet domestic needs.

Economic study on the effects of trade-restrictive measures

17. The CCCS has commissioned a detailed economic study of the domestic effects of a safeguard on construction steel.

18. The study was prepared by a well-known trade economist, Mr. Dan Ciuriak of Ciuriak Consulting Inc. Mr. Ciuriak, who was the deputy chief economist at what is now Global

Affairs Canada, used in his analysis a computable partial equilibrium trade model, a widely accepted methodology for modelling international trade impacts, which is also used by Global Affairs Canada and by the European Commission. The Ciuriak analysis makes the following findings:

(a) A safeguard on construction steel will disrupt up to 62,000 jobs in the construction sector alone. (This is more than is employed in Canada by all primary steel producers combined);

(b) The disruption could be protracted and will result from supply delays or shortages, increased project costs, and heightened market uncertainty;

(c) Due to regional disparities in access to domestic construction steel, the negative economic effects of a safeguard on construction steel will be felt most acutely in British Columbia but all regions of Canada will be negatively affected;

(d) Primary steel producers in Canada are already fully insulated from economic injury by the higher prices resulting from the U.S. sec. 232 tariffs and Canada's 25% duties imposed on July 1st. A safeguard to protect these producers from injury is therefore not warranted; it will simply worsen the economic situation across the board for downstream users of construction steel while resulting in windfall gains for primary producers.

19. There is ample evidence that the Canadian construction sector is already facing damaging price increases and supply shortages for construction steel. The results of the Ciuriak analysis confirm that a safeguard measure on construction steel will exacerbate these

problems, resulting in project disruptions, job losses and broad harm to the Canadian economy.

A safeguard on construction steel will disproportionately harm British Columbia

20. Transportation costs make up a significant percentage of the cost of products such as rebar, making it difficult, if not impossible, for fabricators and other users in B.C. to source those products economically from central Canada. Therefore, B.C. relies on imported rebar and other construction steel products for more than 60% of its annual consumption.

21. Imports into B.C. have historically come from the United States and offshore sources but U.S. supply has declined sharply in 2018 due to the sec. 232 tariffs and Canadian retaliation. At the same time, domestic suppliers have cut their supply of rebar to B.C. The only rebar producer in Western Canada, AltaSteel in Edmonton, has reduced its available supply to numerous British Columbia purchasers by 20% or more this year because of increasing Alberta demand and demand for higher value-added products produced on the same machinery.

22. Producers in central Canada have been a very limited source of supply to B.C. for many years, in part due to transportation costs. Even Gerdau, which has the only other production facility west of Ontario – in Selkirk, Manitoba – has supplied the B.C. market minimally since 2015 and has done so largely from its U.S. production facilities.

23. As a result of the strong performance of the B.C. economy, demand for steel products is growing throughout the province. 2017 and 2018 have already seen construction steel prices rise dramatically throughout North America and in particular in B.C., where they

have increased by approximately 40% in 2018 even before Canada implemented its 25% retaliatory tariffs.

24. Price increases have already caused delays to commercial, industrial, and high-rise residential infrastructure projects, as well as public infrastructure projects, all of which use high volumes of construction steel. Vancouver has already had a number of residential housing projects cancelled or stalled due to increased construction costs. A safeguard that further drives up construction steel prices and reduces supply will make a bad situation much worse. This should be of particular concern as a matter of public policy given the severe lack of housing availability and affordability in Vancouver and elsewhere in B.C.

Conclusion

25. There is no credible economic or policy rationale for a global safeguard on construction steel. It is unnecessary to protect domestic producers, and will significantly harm the construction industry, putting at risk important infrastructure and housing projects and jeopardizing thousands of jobs.

26. The CCCS is committed to helping Members of Parliament understand the broad role that construction steel plays in the Canadian economy and where that steel comes from. CCCS representatives would welcome the opportunity to appear before the Committee to explain its position in more detail and answer questions from Committee members.

Yours very truly,

The Canadian Coalition for Construction Steel

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