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THE CANADIAN STEEL INDUSTRY'S ABILITY TO COMPETE INTERNATIONALLY

Report of the Standing Committee on International Trade

**Hon. Mark Eyking
Chair**

JUNE 2017

42nd PARLIAMENT, FIRST SESSION

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THE STANDING COMMITTEE ON INTERNATIONAL TRADE

has the honour to present its

SEVENTH REPORT

Pursuant to its mandate under Standing Order 108(2), the Committee has studied the Canadian steel industry's ability to compete internationally and has agreed to report the following:

TABLE OF CONTENTS

THE CANADIAN STEEL INDUSTRY’S ABILITY TO COMPETE INTERNATIONALLY ..	1
INTRODUCTION	1
BACKGROUND	1
Canada’s International Trade in Steel	1
Global Excess Steelmaking Capacity	3
FACTORS HAVING AN IMPACT ON THE CANADIAN STEEL INDUSTRY’S ABILITY TO COMPETE INTERNATIONALLY	5
Dumping of Steel on the Canadian Market	5
Transport Infrastructure	6
Energy Efficiency and Greenhouse Gas Emissions	7
Labour and Innovation	8
U.S. Economic and Trade Policies	9
CANADA’S TRADE REMEDY SYSTEM.....	10
China’s Market Economy Status.....	12
CONCLUSION	13
APPENDIX A: LIST OF WITNESSES	17
APPENDIX B: LIST OF BRIEFS	19
REQUEST FOR GOVERNMENT RESPONSE	21
SUPPLEMENTARY OPINION OF THE CONSERVATIVE PARTY OF CANADA.....	23
SUPPLEMENTARY OPINION OF THE NEW DEMOCRATIC PARTY	27

THE CANADIAN STEEL INDUSTRY'S ABILITY TO COMPETE INTERNATIONALLY

INTRODUCTION

The Canadian steel industry contributes to the country's economy through a number of activities, not only through steelmaking itself but also through the use of steel products in many sectors of the economy, including energy, construction and automotive manufacturing. According to the [Canadian Steel Producers Association](#), the Canadian steel industry employs, directly and indirectly, more than 120,000 Canadians.

On 20 October 2016, the House of Commons Standing Committee on International Trade (hereinafter "the Committee") decided to undertake a study of the factors, including the dumping¹ of foreign steel on the Canadian market, that are impacting the Canadian steel industry's ability to compete internationally. Between 3 November 2016 and 23 March 2017, the Committee held four meetings to gather information on the trade-related opportunities and challenges facing the Canadian steel industry. The Committee heard 23 witnesses during these meetings, including representatives from the federal government, steel producers and trade unions. The Committee also received six briefs in the course of its study, all submitted by witnesses who appeared before the Committee.

This report provides background information on the steel industry, summarizes the evidence presented to the Committee and makes recommendations to the federal government. A significant portion of this report is devoted to global excess steel production capacity and the resulting dumping of foreign steel on the Canadian market. That said, other issues related to the Canadian steel industry's ability to compete internationally are examined, such as Canada's transport infrastructure, the industry's environmental footprint, labour and innovation, as well as U.S. economic and trade policies.

BACKGROUND

Canada's International Trade in Steel

Ontario is responsible for the vast majority of Canada's trade in steel products. In 2016, Canadian exports of steel products reached \$6.5 billion.² That same year, Ontario's steel product exports were worth \$5.1 billion, accounting for 78.8% of the value of Canadian steel product exports. Quebec was in second place with exports of \$842.9 million, or 12.9% of the value of Canadian exports. In 2016, Canada imported \$9.5 billion of steel products. That same year, Ontario imported \$5.9 billion, accounting for 62.0% of the value of

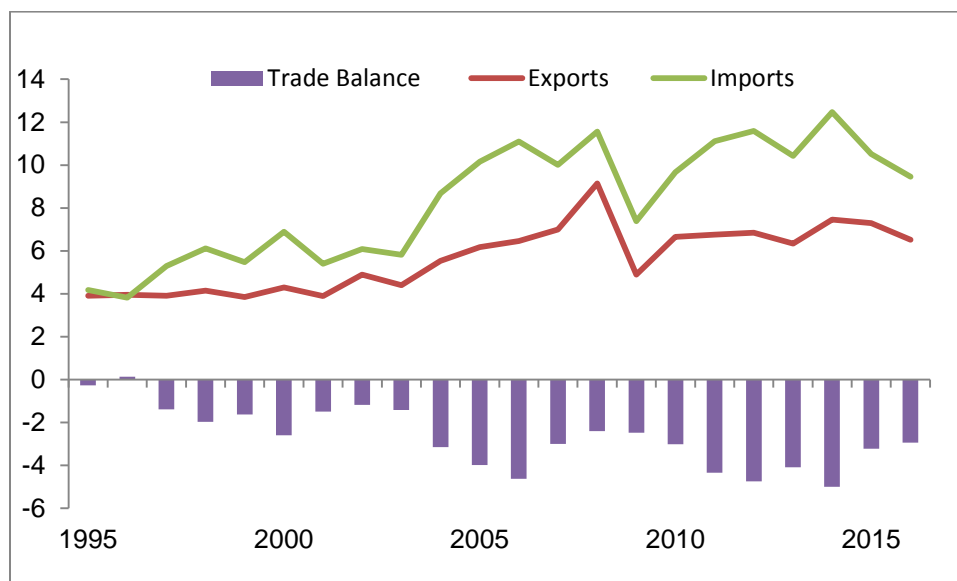
1 According to the [Canada Border Services Agency](#), "Dumping occurs when goods are sold to importers in Canada at prices that are lower than the selling price of comparable goods in the country of export or when goods are sold to Canada at unprofitable prices."

2 Statistics Canada, Canadian International Merchandise Trade Database, consulted through [Trade Data Online](#), 3 May 2017. Regarding the data in this paragraph and the following paragraph, steel products are those defined by the U.S. International Trade Administration in its publication [Steel Imports Report: Canada](#).

Canadian steel imports. British Columbia was in second place with imports of \$1.5 billion, or 15.7% of the value of Canadian imports.³

Figure 1 shows the change in the value of Canada's trade in steel products between 1995 and 2016. Canada's trade deficit for steel products increased during this period from \$266.5 million to \$2.9 billion due to higher growth in imports than exports.⁴

Figure 1 – Canada's Trade in Steel Products with the World, 1995–2016 (\$ billion)



Note: Steel products are those defined by the U.S. International Trade Administration in its publication [Steel Imports Report: Canada](#).

Source: Figure prepared using data from Statistics Canada.

The increase in Canada's trade deficit with respect to steel products in recent decades has coincided with a significant increase by some countries in their steel production capacity, resulting in excess global steelmaking capacity. According to the Organisation for Economic Co-operation and Development (OECD), global excess steelmaking capacity poses major challenges for steel producers around the world.⁵ According to the OECD, this excess capacity is closely tied to the increasingly frequent imposition of anti-dumping duties⁶ and countervailing duties⁷ on steel imports.⁸

3 Ibid.

4 Ibid.

5 Organisation for Economic Co-operation and Development [OECD]; and Kingdom of Belgium, [Background Note No. 2: Capacity Developments in the World Steel Industry](#), 18 April 2016.

6 A duty imposed to offset the injury caused by dumped goods.

7 A duty imposed to offset the injury caused by subsidized goods.

8 OECD and Kingdom of Belgium, [Background Note No. 2: Capacity Developments in the World Steel Industry](#), 18 April 2016; and OECD and Kingdom of Belgium, [Background Note No. 3: Trade and Trade Policy Developments](#), 18 April 2016.

Global Excess Steelmaking Capacity

In recent decades, the steel industry has seen a shift in its global output. For example, between 1996 and 2016, world crude steel production increased from 751.0 million metric tonnes (mmt) to 1,629.6 mmt.⁹ China accounted for the vast majority of this increase, as its production rose from 101.2 mmt in 1996 (13.5% of world production) to 808.4 mmt in 2016 (49.6% of world production).¹⁰ By contrast, Canada's production of crude steel fell from 14.7 mmt in 1996 (2.0% of world production)¹¹ to 12.5 mmt in 2015 (0.8% of world production).¹²

While world crude steel production has increased since the beginning of the 21st century, world production capacity has increased even more dramatically. Specifically, world crude steel production increased by 97.1% between 2000 and 2016, from 850.2 mmt to 1,629.6 mmt.¹³ During the same period, annual world crude steel production capacity increased by 130.1%, from 1,046 mmt to 2,407 mmt.¹⁴

Producers operating under normal market conditions adjust to capacity underutilization by reducing their production capacity. However, the OECD believes that this adjustment process can be long and arduous in the steel industry, with some regions experiencing extended periods of excess capacity.¹⁵

Moreover, global demand for steel has not kept pace with supply in recent years, and several countries are still recovering from the economic and financial crisis of 2008–2009.¹⁶

The issue of global excess steelmaking capacity was raised by the vast majority of stakeholders who appeared before the Committee. There appears to be a consensus among Canada's steel sector stakeholders that this excess capacity is harmful to the financial health of the Canadian steel industry and its ability to compete internationally.

In its brief to the Committee, the [United Steelworkers](#) said that global excess steel capacity is mainly due to certain countries that are not part of the OECD continuing to make investments in steelmaking capacity in order to support the construction and manufacturing sectors, despite muted global demand for steel.

Many witnesses said that, in recent years, global steel production capacity has been not only excessive, but also that the amount of excess capacity has been significant.

9 World Steel Association, [Global Interactive Map](#), 2017.

10 Ibid.

11 World Steel Association, [Steel Statistical Yearbook 2006](#), December 2006.

12 World Steel Association, [Steel Statistical Yearbook 2016](#), October 2016.

13 World Steel Association, [Global Interactive Map](#), 2017.

14 OECD, [World Crude Steelmaking Capacity](#), 2016.

15 OECD, [Excess Capacity in the Global Steel Industry and the Implications of New Investment Projects](#), 2015.

16 Ibid.

According to [Tenaris](#), there is global steel overcapacity of 700 mmt, 45 times the size of the Canadian steel market.

[Essar Steel Algoma Inc.](#) said that overcapacity is a widespread problem in the steel industry as a whole, such that the OECD considers it the main economic challenge facing the steel industry.

[Innovation, Science and Economic Development Canada](#)¹⁷ mentioned that the excess supply of steel on the global market “creates downward pressure on global steel prices, unfairly undermining competition in open markets like Canada.” Specifically, it said that excess steel production depresses prices in manufacturing supply chains and that Canadian steel producers can lose “contracts for infrastructure projects to competitors using inferior dumped steel hidden in a manufactured product that’s imported.”

This fact was supported by [Evraz](#), which stated that global overcapacity in steel has indeed led to unfair pricing in the Canadian market and job losses in Canada. Moreover, the [United Steelworkers](#) argued that the lower prices caused by global excess steelmaking capacity forces producers to access increasing amounts of short-term debt and operate at unsustainable levels of indebtedness.

Witnesses who appeared as part of the study all agreed that China is the primary source of this global excess capacity. In this regard, [Essar Steel Algoma Inc.](#) said China represents 60% to 70% of global overcapacity. According to the company, the “steel industry in China does not operate on the basis of profit optimization but rather on employment maximization. In other words, Chinese steel is government subsidized, produced at artificially low prices, and sold abroad, often below true cost, to support Chinese jobs.”

[Ian Lee](#), associate professor at Carleton University and representative of the Macdonald-Laurier Institute, who appeared as an individual, said Chinese steel companies are subsidized in multiple ways, for example through extended loans – loans they wouldn’t otherwise qualify for because these companies are bankrupt – or through loans with artificially low interest rates. He said Chinese steel companies are given preferential treatment because they are state-owned enterprises.

For these reasons, the [Windsor-Essex Regional Chamber of Commerce](#) noted the difficulties that Canadian steel companies have competing against their Chinese counterparts, given that the latter “have employment and production quotas, have little regard for profits or losses, manipulate the currency, use cheap coal emitting 15 times as much CO₂ as Canada per tonne, and dump steel into Canada.”

According to [Mr. Lee](#), although Chinese state-owned enterprises are losing money and are inefficient, promises by the Chinese government to reform and privatize them have failed because they employ very large numbers of Chinese people. He said:

17 Until the [Department of Industry Act](#) is amended, the department’s legal title is “Department of Industry.” That said, the applied title currently used when referring to this department – Innovation, Science and Economic Development Canada – is used in this report.

There are powerful interests in these large SOEs [state-owned enterprises]. They employ very large numbers of people, as I said, and thus I conclude in this far, far too brief overview that Canadian, U.S., or European policymakers should not count on major reforms to SOEs and thus should not be counting on the Chinese to take major capacity out of the steel industry as they had promised.

[Global Affairs Canada](#)¹⁸ and [Innovation, Science and Economic Development Canada](#) told the Committee that the Government of Canada is attempting to respond to excess steelmaking capacity and that its representatives interact with other countries, including at international fora such as the OECD, the G20 and the World Trade Organization (WTO), to mitigate the trade-related impact of global excess capacity on Canada.

FACTORS HAVING AN IMPACT ON THE CANADIAN STEEL INDUSTRY'S ABILITY TO COMPETE INTERNATIONALLY

Dumping of Steel on the Canadian Market

Due to the excess capacity in the global steel industry and the generous subsidies given to steel producers in some countries, for example China, many witnesses told the Committee that the dumping of steel products on the Canadian market is a problem that prevents Canadian steel producers from competing on a level playing field with their foreign counterparts. [Innovation, Science and Economic Development Canada](#) described a market that is struggling with the dumping of foreign products:

... what we're seeing from the types of dumping taking place globally is not free market participation. That's not a fair market. It's not a market where the outcomes are being determined based on the competitiveness of the product. It's being based on price, and if jurisdictions are able to sell below their cost of production, I don't know of any free market model where that is a sustainable form of business.

Because of its significant excess capacity, witnesses who appeared before the Committee most often identified China as the primary country responsible for the dumping of steel in Canada. That said, some of them pointed out that China is not the only country to dump steel onto the Canadian market. For example, [Evraz](#) said that South Korea is the second-largest exporter of steel to North America and that unfair South Korean pricing has caused disruptions in many segments of the Canadian market.

Cases of dumping by South Korea have highlighted an unexpected effect of China's excess steel capacity. As the [Canadian Steel Producers Association](#) explained, the increase in Chinese steel exports to South Korea means that Korean producers often have no choice but to try to dump their steel abroad. This phenomenon is not limited to South Korea. For example, the association said, "[w]e now see dumping coming out of Europe. It's the same problem. Chinese steel is pushing Turkish steel out of Turkey, and Turkish steel is ending up in North America."

18 Until the [Department of Foreign Affairs, Trade and Development Act](#) is amended, the department's legal title is "Department of Foreign Affairs, Trade and Development." That said, the applied title currently used when referring to this department – Global Affairs Canada – is used in this report.

Some witnesses commented on another issue related to the dumping practices of Chinese companies: schemes designed to circumvent Canadian trade remedy rules. [ArcelorMittal Dofasco](#) explained that Chinese steel producers can, for example, move their steel through Vietnam to avoid paying anti-dumping duties on Chinese products.

[Tenaris](#) gave an example of another practice allowing foreign exporters to avoid paying anti-dumping duties in Canada:

To give you an idea, we won a case against China. Within a couple of years, a trader from another country submitted a request to [the Canada Border Services Agency] for a product, the same one that we won the case against in China. They moved to another country, Indonesia, added small value to it, came to Canada, and asked for what's called an "advance ruling."¹⁹ This was a confidential decision between those parties, the government and this party that wanted to do it, and we, as the makers of that product in Canada, were never informed. We were given neither the opportunity to participate nor the results of that advance ruling.

To illustrate the negative impact that steel dumping has on various communities in Canada, the [Windsor-Essex Regional Chamber of Commerce](#) said that stopping China from dumping steel in Canada would allow the Atlas Tube plant in Welland to reopen and give a hundred or so employees back their jobs, as well as allow the Harrow plant to increase its production to about 150,000 tonnes.

Transport Infrastructure

Canada's geography provides some advantages, such as good access to raw materials, but it also presents challenges, such as long distances to reach certain markets. According to the [Canadian Steel Producers Association](#), Canada has "ready" access to raw materials for steelmaking, and necessary inputs, like high-quality iron ore, metallurgical coal and scrap metal, are sourced close to steel mills. This is in contrast to other steel-producing countries like China, for example, which "sources iron ore from jurisdictions like Australia and Brazil, coal from jurisdictions like Mongolia, and scrap metal increasingly from North America." Moreover, raw materials are transported efficiently through Canada's "modern" rail and marine networks.

[Innovation, Science and Economic Development Canada](#) told the Committee that steel is a very heavy commodity product, so transporting it over long distances can become costly and uneconomical. According to the [Department](#), it is important for mills to be located near their customers. For example, it noted that some Ontario steel mills are well positioned to supply automotive components because they are located near their clients. The [Canadian Steel Producers Association](#) also noted that in Canada, minimal transportation is needed to move steel to end markets.

However, [Amalgamated Trading Ltd.](#), a Western Canadian company that imports foreign steel, said it has run into problems transporting steel within Canada. It described Canada's transportation system as "good [but] costly." The [company](#) explained that it costs more to transport steel from Ontario, where the majority of Canadian steel is

19 An advance ruling is a written statement on the tariff classification of goods provided to a person by the Canada Border Services Agency (CBSA) under paragraph 43.1(1)(c) of the [Customs Act](#).

produced, to Western Canada than from Asia to Vancouver. Therefore, in the view of that company, importing foreign steel has a large impact on Western Canada's economy. The following quotation illustrates the cost of steel transport from Central to Western Canada: "When we're importing steel into western Canada, we're paying a freight charge from Asia to Vancouver of \$45 to \$50 per metric ton. When we bring it from Ontario to Western Canada, we are paying \$120 per metric ton. That's by rail. If we bring it via truck, we're paying nearly \$200 per metric ton."

Energy Efficiency and Greenhouse Gas Emissions

Several witnesses commented that, with respect to energy efficiency and greenhouse gas (GHG) emissions, Canadian steel was more environmentally friendly than steel from other countries. For example, the [Canadian Steel Producers Association](#) said that the production of steel in Canada for use in Canada results in 1.1 tonnes of GHG emissions, while production of steel in China for use in Canada results in 3.5 tonnes of GHG emissions. In the same vein, the [Hamilton Chamber of Commerce, Sault Ste. Marie Chamber of Commerce and Windsor-Essex Regional Chamber of Commerce](#) stated that "[s]teel used in Canada and produced in Canada has the lowest GHG emissions of any steel the Canadian economy can use."

Witnesses cited several factors that explain the low carbon footprint of steel production in Canada. [Innovation, Science and Economic Development Canada](#) said that significant inputs for steel production in Canada, such as electricity, come from non-emitting sources. Moreover, according to the [Canadian Steel Producers Association](#), the transport associated with moving steel and physical inputs to their final destination explains in part why steel produced and used in Canada results in fewer GHG emissions than Chinese steel imported into Canada, which must travel long distances.

[Innovation, Science and Economic Development Canada](#) said that the small carbon footprint of Canadian steel provides the country's industry with the following advantage: "For example, look at the challenges that our oil and gas sector has faced over the years in terms of the social contract and the way the product is perceived. I think this is going to happen more and more around steel, and this will be to the benefit of Canada and Canadian steel producers."

The [Department](#) also noted that the low-carbon production of Canadian steel would help the Canadian steel industry benefit from government procurements that take carbon dioxide emissions into account when awarding contracts. Addressing the issue of how the federal government can promote the use of less polluting steel, the [Department](#) added: "We have had conversations with different departments about different policies that can be put in place or are possible. I believe the department for procurement services, [Public Services and Procurement Canada], is looking into those issues as well as infrastructure."

In this regard, [Tenaris](#) noted that "[t]here's an opportunity ... for us to share the information so that customers know, when they make a decision to purchase something from China, that they're buying something that has produced three times the amount of GHG emissions and that if they choose to buy from a supply chain in Canada they're making the right ... decision."

Some producers, however, acknowledged that there were costs associated with low-carbon production. [Stelco Inc.](#) said, “[y]ou can look at the cost of steel as it comes across from other jurisdictions. Obviously, they’re not subject to a lot of the carbon costs that we’re incurring as we’re making our businesses more efficient.”

On that note, [Gerdau Long Steel North America](#) said that carbon pricing needs to apply to everybody so that Canadian steel producers are not put out of work. [Evraz](#) added that carbon pricing mechanisms should be carefully implemented: It noted: “We support the government’s priority of addressing climate change in a balanced approach.... Measures that place Canadian producers at a disadvantage at home against heavier polluters are not good for middle-class jobs or the environment.”

Other witnesses representing steel producers asked for help offsetting the costs of low-carbon steel production. [Stelco Inc.](#) said: “We want to provide the green steel ... but we need some help to equalize those costs at the back end. Whether there’s a border measure of some kind that can be implemented in the form of a tax or some form of equalization, we’re obviously all ears and willing to work with you.”

Commenting on the possible introduction of such a tax, [Finance Canada](#) said it would indeed be possible to apply a tariff at the border to ensure that part of the cost of carbon pricing that Canadian steel companies must pay is also imposed on foreign companies exporting to Canada.

The [Hamilton Chamber of Commerce, Sault Ste. Marie Chamber of Commerce and Windsor-Essex Regional Chamber of Commerce](#) recommended that carbon pricing revenue be allocated to energy-intensive industries like steel to further develop low-carbon processes, technology and innovation, among other things.

Labour and Innovation

Witnesses who addressed labour and innovation cited the importance of these factors for the ability of Canadian steel mills to compete internationally. For example, [ArcelorMittal Dofasco](#) said, “[w]e rely on processes and product innovation to be successful in the North American and global steel industry. Having said that, we also know that people are our competitive advantage.” The [United Steelworkers](#) told the Committee that the steel sector plays a crucial role in shaping the economy of tomorrow through various research and development efforts. It gave the following example: “following years of research, steel and automotive engineers have designed advanced high strength steel for cars, which can reduce the overall weight of a vehicle by 117 kg. This results in a lifetime saving of 2.2 tonnes of CO₂ equivalents per vehicle.”

With respect to labour, [Innovation, Science and Economic Development Canada](#) said it was “critical” for the steel industry to have highly skilled workers, noting that positions in this industry are sophisticated and high-tech. The [Department](#) added that the steel industry maintains linkages to universities, colleges and research institutions to ensure that the sector has the highly trained, highly skilled workforce it needs. According to the [Canadian Steel Producers Association](#), Canada’s steelworkers are “well-educated,” and “trained throughout their career,” which ensures high levels of productivity.

Lastly, [ABB Canada](#) said that, for ABB and its customers, millennials are the future of the workforce and that this could benefit the steel industry, which has incorporated software and automation into its operations and processes. According to ABB, the “next-generation for Canada is to think of how important economic players such as the steel industry can be supported in complete digital transformations.”

U.S. Economic and Trade Policies

Although China was at the forefront of discussions on Canadian steel imports, when it came time to talk about export markets for Canadian steel, the United States was the primary market witnesses spoke about. To illustrate the importance of the U.S. market, [Evrax](#) noted that, in 2016, 88% of steel exports from Canada were to the United States.

Several witnesses commented on the economic and trade policies being proposed by the new U.S. administration, noting that they could present challenges for Canadian steel mills. [ArcelorMittal Dofasco](#) expressed its concerns as follows: “Potential border adjustment taxes, expanded U.S. Buy America policies – particularly for private projects – as well as expansion of U.S. trade rules that may result in diversion of offshore steel into Canada are all of great concern in that they would disrupt efficient working supply chains.”

With respect to U.S. restrictions on the procurement of foreign steel, [Evrax](#) urged the federal government to “strongly” oppose possible expansions of these restrictions, especially with respect to private sector procurement, including in relation to pipeline construction.

[Global Affairs Canada](#) said that Canadian representatives in Washington are working hard to have Canadian steel exempt from “Buy America”²⁰ policies and to prevent the United States from expanding these policies.

In this respect, some witnesses, including [ADF Group Inc.](#), suggested that the government consider introducing “Buy Canadian” measures to protect the Canadian industry. To the [United Steelworkers](#), such a policy “makes a lot of sense”.

However, the Committee was told that “Buy America/Buy American”-type policies in the United States have been around for a long time and that the U.S. government has been granted exemptions for these measures in its free trade agreements. [Innovation, Science and Economic Development Canada](#) explained that Canada’s trade agreement obligations do not provide it with the same ability as the United States to favour domestic steel producers for government contracts.

As for taxes, [Amalgamated Trading Ltd.](#) believed that the new U.S. administration is going to reduce corporate taxes and, as a result, “a lot” of Canada’s steel production is going to leave Canada for the United States.

20 According to [Global Affairs Canada](#), “Buy America and Buy American are separate legislation and regulation requirements. Buy America applies solely to grants issued by the Federal Transit Administration and Federal Highway Administration; Buy American may be applied to all direct U.S. federal procurement.”

While witnesses expressed some concerns about U.S. trade policies, the Committee was told that trade in steel between the two countries is balanced. [Evraz](#) commented that the “U.S.-Canada steel trade is a model relationship, balanced, integrated, and without trade disputes. Our customers do not see a border.” [ArcelorMittal Dofasco](#) agreed, noting that Canada and the United States trade fairly in steel, with no dumping or subsidy orders against each other.

With regard to the future of trade in North America and the possible renegotiation of the *North American Free Trade Agreement* (NAFTA), several witnesses representing Canadian steel producers highlighted the importance of collaboration and cooperation on the North American continent. [Stelco](#) said it believes that Canada is entering into a critical period with respect to its relationship with the United States and, with the prospect of a renegotiation of NAFTA looming, the Canadian steel industry has reason to be concerned. Stelco therefore suggested taking the following approach: “While [Stelco is] encouraged by the position taken by our government in these early days of the new U.S. administration, [Stelco believes] our focus should be on increasing collaboration with our largest trading partner. We would be working together to encourage growth in manufacturing for both our respective countries.”

In this regard, [ArcelorMittal Dofasco](#) said that the possible renegotiation of NAFTA presents “an opportunity for a North American approach that would increase the North American manufacturing base and the market share of supply chains, including steel.”

CANADA’S TRADE REMEDY SYSTEM

The Committee was repeatedly told that the Canadian steel industry has the ability to compete internationally, provided that it can do so on a level playing field. In that vein, the [Canadian Steel Producers Association](#) stated:

To the committee’s fundamental question in undertaking this study—that is, asking whether the Canadian steel industry is able to compete internationally—the answer from our perspective is an unequivocal “yes”. In a fair and free market operating on the basis of commercial principles, the Canadian steel industry can not only compete but also thrive.

The Committee was told that, for the Canadian steel industry to be able to compete on an even playing field, Canada must be able to defend itself against unfair trade practices by foreign companies and countries. For this reason, the operation and effectiveness of Canada’s trade remedy system were raised as issues numerous times during this study. In this regard, it is worth mentioning that the [Special Import Measures Act](#) (SIMA), administered by the Canada Border Services Agency (CBSA) and the Canadian International Trade Tribunal protects Canadian producers against injury caused by the dumping of imported goods through anti-dumping duties.²¹

[Finance Canada](#) believed that Canada’s anti-dumping system is a “very effective system for the steel industry.” According to the Department, measures put in place in

21 The [Canada Border Services Agency](#) website provides an overview of Canada’s anti-dumping and countervailing investigative processes.

Canada to protect steel producers are comparable to those put in place in the United States. The [Department](#) also noted that Canada's anti-dumping system is "among the most responsive in the world in terms of getting duties in place quickly."

Some witnesses supported this assessment of Canada's anti-dumping system. For example, [Evrax](#) said, "[w]e're very appreciative of Canada's trade remedy system and the efforts we hope the government is going to make and will continue to make." Similarly, [Tenaris](#) said "[i]n general, Canada's system works relatively efficiently from beginning to end."

However, other witnesses wanted to share ideas to ensure that Canada's trade remedy system could continue to meet the needs of the steel industry. [Gerdau Long Steel North America](#) said that it was important for the federal government to "make sure the trade remedy system is updated, fast, reliable, and will prevent any smart importer or exporter from finding loopholes." The company also said that Canada should align its practices with the U.S. to make sure that Canada does not become a dumping ground for foreign steel.

[Amalgamated Trading Ltd.](#), a company that imports steel into Western Canada, mentioned that Canada's trade remedy system is effective and allows anti-dumping duties and countervailing duties to be quickly implemented. However, the company believed the system benefits Central Canada more so than Western Canada. It believes this is due to the difficulty Western provinces have in sourcing steel from Central Canada because of transport costs but also because "Canadian steel mills are not interested in selling into western Canada." The company therefore asked that the possibility of adjusting antidumping duties on a regional basis rather than applying them to the entire country be examined.

The [United Steelworkers](#) shared recommendations with the Committee regarding the role that unions should be allowed to play in trade remedy proceedings. More specifically, it asked that unions be allowed to file anti-dumping and countervailing duty complaints under section 31 of SIMA, file safeguard complaints under section 23 of the [Canadian International Trade Tribunal Act](#), and participate fully in the process leading to the imposition of anti-dumping duties and countervailing duties, as is the case in the United States and Australia. In its brief to the Committee, the [union](#) argued that, by allowing unions to participate in this process, they "can assist the efforts of Canadian producers embroiled in costly trade cases by mustering support for cases both regionally and nationally among disparate parties."

[ADF Group Inc.](#) was more critical of Canada's trade remedy system, noting that the "current measures taken by the Canadian government are insufficient to protect our industry. We therefore recommend that these measures be strengthened." Specifically, the [company](#) said that structural steel manufacturers should be better informed about the recourse available to them when they witness dumping in the Canadian market. [ADF Group Inc.](#) also recommended that a study be launched to shed light on the gaps between the selling prices of Canadian companies and those of international companies in relation to bridge and major structure projects in Canada.

Similarly, in a joint brief to the Committee, the [Hamilton Chamber of Commerce, Sault Ste. Marie Chamber of Commerce and the Windsor-Essex Regional Chamber of Commerce](#) recommended that the federal government explore procurement tools to consider the selection of local suppliers after evaluating the following criteria: the global environmental impact of importing steel products; the presence of comparable health and safety regulations during production and manufacturing in the exporting country; and equal access to the exporting country's market for the same product.

On 22 March 2017, the federal government tabled the [2017 budget](#), which proposes a number of amendments to the SIMA and related trade remedy regulations. These amendments would, among other things, create a new mechanism for Canadian producers to file a complaint regarding trade and business practices specifically intended to avoid trade remedy duties (anti-circumvention investigations) and provide greater discretion to the CBSA when assessing the reliability of prices in the exporting country in anti-dumping investigations where the CBSA finds that prices are distorted due to the presence of a "particular market situation." The government also promised in its budget to make regulatory amendments to allow unions to participate as interested parties in trade remedy proceedings.

Some witnesses were keen to share their thoughts on provisions in the 2017 budget relating to Canada's trade remedy system. [ArcelorMittal Dofasco](#), for example, welcomed the federal government's commitment to improve its ability to defend Canadian manufacturers against dumped and subsidized imports. It believes the proposed legislative and regulatory amendments "will improve the enforcement of trade remedies, address the circumvention of duties, and better account for market and price distortions. These measures received widespread support from manufacturers and business associations across Canada."

China's Market Economy Status

Another subject that was raised on numerous occasions during the Committee's study was China's market economy status. The WTO's [Protocol of Accession](#) for China included a clause allowing China to be treated as a non-market economy in anti-dumping proceedings if Chinese companies could not prove that they were operating under market economy conditions. However, following the clause's expiry on 11 December 2016, China is demanding that WTO members recognize it as a market economy.

Dumping is usually determined by comparing the price in the importing country of an allegedly dumped product with a reference price, referred to as the "normal value." Usually, the normal value is equivalent to the exporter's domestic market price of products similar to the product being dumped. The main effect of non-market economy status in anti-dumping investigations is that it permits the use of other methods to establish the normal value.

Taking the example of China, [Finance Canada](#) explained that the federal government could use third-country information or some kind of surrogate information instead of relying on Chinese data if it is determined that Chinese prices are unreliable. It said that not having the ability to use third-party or surrogate information for steel

products imported from China would reduce the levels of anti-dumping duties by roughly 30 percentage points, according to different estimates.

By treating China as a non-market economy, the CBSA can use these alternative calculation methods to establish the price of products on China's domestic market. The resulting dumping margins are generally higher than those using the CBSA's standard calculation methods.

[Finance Canada](#) confirmed that, absent a regulatory change, non-market economy treatment for China would continue past 11 December 2016. While the [Department](#) did not want to take a position on whether market economy status should be granted to China, it said it was following the issue closely.

Highlighting that China has initiated WTO proceedings against the United States and the European Union (EU) regarding its market economy status, the [Canadian Steel Producers Association](#) said it was important that Canada show solidarity with the United States and the EU. The association explained that the CBSA determines whether a country subject to a trade remedy in Canada is behaving as a non-market economy through an individual and thorough investigation under section 20 of the SIMA. The association added, “[w]e think that’s a very strong approach, entirely defensible at the WTO. Should it come time that the Chinese also seek to challenge that ability for us to understand how their economy is working, we would certainly expect the government to defend that strongly.”

For its part, the [United Steelworkers](#) said, “I think there’s just no way we can grant market economy status to China. It would be disastrous for our country.”

CONCLUSION

On the basis of the testimony it heard during its study, the Committee believes that the Canadian steel industry is well positioned to compete internationally. Among other competitive advantages, the Canadian steel industry benefits from innovative products, a skilled workforce and easy access to the raw materials it needs. By building on these advantages, Canada's steel producers can continue to create tens of thousands of jobs, both direct and indirect, in Canada.

However, to prosper and compete internationally, it is imperative that Canadian and foreign steel producers be subject to a level playing field. The Committee found that the global excess steelmaking capacity and the resulting dumping of foreign products into Canada have hurt Canadian steel producers. It is difficult, if not impossible, for Canadian steel producers to compete with companies exporting their products to Canada at prices that do not reflect market forces. For these reasons, the Committee notes the importance of an effective, fair and accessible trade remedy system for all stakeholders in the Canadian steel industry.

The Committee welcomes the new measures, announced in the federal government's 2017 budget, to improve Canada's trade remedy system. However, the Committee notes that it would be in the government's interest to publicize this information

within the steel industry and to increase the visibility of decisions on the imposition of steel import duties.

The Committee also believes that it is critical for the federal government to reserve the right to use methods other than prices in the exporting country's market to establish the normal value of a product when foreign companies cannot prove that they are operating under market economy conditions. When imposing anti-dumping duties or countervailing duties, the Committee believes that the government should consider the consequences of dumping or countervailable subsidies on a regional basis, where appropriate.

Lastly, with respect to the environment, the Committee believes that Canada's steel production is among the most environmentally responsible in the world and that it would be in the government's interest to develop a strategy to ensure that Canadian producers can benefit from the low carbon footprint of Canadian steel.

Therefore, the Committee recommends:

Recommendation 1

That the Government of Canada proactively participate in discussions and initiatives of international organizations, – the Organisation for Economic Co-operation and Development, for example – that want to find solutions to global excess steelmaking capacity.

Recommendation 2

That the Government of Canada increase the visibility of trade remedy services and tools available to Canadian companies and that it proactively inform Canadian steel industry stakeholders when a decision is made regarding the imposition of anti-dumping duties or countervailing duties on steel products.

Recommendation 3

That the Government of Canada work with its closest trading partners, particularly the United States, to ensure that those countries and Canada have adequate and effective trade remedy systems in place and that Canada does not become a dumping ground for foreign steel.

Recommendation 4

That the Government of Canada reserve the right to use methods other than prices on the exporting country's market to establish the dumping margin when foreign companies cannot prove that they are operating under market economy conditions.

Recommendation 5

That the Government of Canada consider the consequences of dumping and countervailable subsidies for all regions in Canada in steel import investigations and that it study the impact of the imposition of regional rather than national anti-dumping or countervailing duties, where appropriate.

Recommendation 6

That the Government of Canada assist Canadian steel producers in benefitting from the low carbon footprint of Canadian steel compared to foreign steel, including through government procurement processes that take carbon dioxide emissions into account when awarding contracts.

Recommendation 7

That the Government of Canada preserve and advance fair trade by continuing to treat China as a non-market economy.

Recommendation 8

That the Government of Canada grant labour unions an expanded role in Canada's trade remedy system, including the right to participate in trade remedy complaints.

APPENDIX A LIST OF WITNESSES

Organizations and Individuals	Date	Meeting
<p>Department of Finance</p> <p>Michèle Govier, Chief Trade Rules, International Trade Policy Division, International Trade and Finance Branch</p>	2016/11/03	43
<p>Department of Foreign Affairs, Trade and Development</p> <p>John Layton, Executive Director Trade Remedies and North America Trade Division</p> <p>André Moncion, Deputy Director Trade Remedies and North America Trade Division</p>		
<p>Department of Industry</p> <p>Paul Halucha, Assistant Deputy Minister Industry Sector</p> <p>Patrick Hum, Senior Director Manufacturing Industries Directorate, Manufacturing and Life Sciences Branch, Industry Sector</p>		
<p>Amalgamated Trading Ltd.</p> <p>William Miller, President and Chief Executive Officer</p>	2017/03/09	61
<p>Canadian Steel Producers Association</p> <p>Joseph Galimberti, President</p>		
<p>Macdonald-Laurier Institute</p> <p>Ian Lee, Associate Professor Carleton University and Representative</p>		
<p>United Steelworkers</p> <p>Shaker Jamal, Research Representative National Office</p> <p>Ken Neumann, National Director for Canada National Office</p>		
<p>Essar Steel Algoma Inc.</p> <p>Laura Devoni, Manager Trade and Economics</p> <p>Kalyan Ghosh, President and Chief Executive Officer</p>	2017/03/21	62
<p>Evraz</p> <p>Conrad Winkler, President and Chief Executive Officer North America</p>		
<p>Gerdau Long Steel North America</p> <p>Roger Paiva, Vice-President and General Manager</p>		

Organizations and Individuals	Date	Meeting
Hamilton Chamber of Commerce Huzaifa Saeed, Policy and Research Analyst	2017/03/21	62
Sault Ste. Marie Chamber of Commerce Rory Ring, Chief Executive Officer		
Stelco Inc. Trevor Harris, Director Government and Public Affairs Michael McQuade, President and General Manager		
Windsor-Essex Regional Chamber of Commerce Matthew Marchand, President and Chief Executive Officer		
ABB Canada Carolina Gallo, Vice-President Public Affairs	2017/03/23	63
ADF Group Inc. Éric Ducharme, Vice-President Sales		
ArcelorMittal Dofasco Sean Donnelly, President and Chief Executive Officer		
Tenaris David McHattie, Vice-President Institutional Relations Canada		

APPENDIX B LIST OF BRIEFS

Organizations and Individuals

ABB Canada

Amalgamated Trading Ltd.

ArcelorMittal Dofasco

Hamilton Chamber of Commerce

Sault Ste. Marie Chamber of Commerce

Tenaris

United Steelworkers

Windsor-Essex Regional Chamber of Commerce

REQUEST FOR GOVERNMENT RESPONSE

Pursuant to Standing Order 109, the Committee requests that the government table a comprehensive response to this Report.

A copy of the relevant *Minutes of Proceedings* ([Meetings Nos. 43, 61, 62, 63, 70 and 71](#)) is tabled.

Respectfully submitted,

Hon. Mark Eyking
Chair

**SUPPLEMENTARY OPINION BY THE OFFICIAL OPPOSITION
CONSERVATIVE PARTY OF CANADA
THE CANADIAN STEEL INDUSTRY'S ABILITY TO COMPETE INTERNATIONALLY**

Introduction

The Conservative Party of Canada (CPC) greatly appreciates the contribution of all witnesses who took the time to share their perspective and expertise in the committee's study of the Canadian steel industry's ability to compete internationally. Many of the witnesses have made clear that there are significant opportunities for Canada's steel industry to successfully compete in the global marketplace; however factors must first be addressed to ensure a level playing field.

Environment

The Committee heard from witnesses that emphasized Canadian steel as the cleanest steel for Canada¹. Canadian steel manufacturers currently utilize numerous techniques to ensure the utmost environmentally friendly production and constantly innovate ways to reduce the carbon footprint throughout the production process. As described, "Measures that place Canadian producers at a disadvantage at home against heavier polluters are not good for middle-class jobs or the environment"².

The Canadian steel industry strives to continue to produce a greener product; however additional taxation within Canadian borders, such as a carbon tax, only hinders their ability to compete. "We want to provide the green steel that goes into construction products, automobiles, and the other infrastructure projects that everybody wants, in order to provide a greener footprint for Canadian manufacturing, but we need some help to equalize those costs at the back end."³

As such, the CPC recommends that the Government of Canada completes an economic impact analysis of the effects of the Government's federal carbon pricing plan on the competitiveness of Canada's steel industry.

¹ Winkler, Conrad. [Evidence, Standing Committee on International Trade](#). March 21st, 2017.

² Ibid.

³ Harris, Trevor. [Evidence, Standing Committee on International Trade](#). March 21st, 2017.

Market Economy Status

A continuous caution that the committee heard from the balance of witnesses was the warning against granting China market economy status. To do so would be disastrous for the Canadian steel industry⁴.

As described by Dr. Ian Lee,

“[China is] subsidizing in multiple ways. They're giving extended loans, loans that wouldn't qualify because the company's bankrupt in the first place. They're giving them very artificially low interest rate loans. They're giving them preferential treatment inside, because they're owned by the Government of China. They're getting a whole series of preferences and preferential treatment”⁵.

In 2002, the Liberal government of the day passed legislation in recognition of China's membership to the WTO which included product-specific safeguards which expired on December 11, 2013 and the use of an alternate methodology for antidumping cases which would have expired on December 11, 2016. In April 2013, through an Order in Council, the previous Conservative Government repealed the mechanism which would have automatically granted China market economy status. This signaled that Canada did not believe China had met their obligations under their Accession Protocol and the CPC believes this still to be the case.

Likewise, there is a significant need for Canada to demonstrate unanimity with the United States and the European Union against the recent WTO proceedings China has initiated, to which Canada has registered itself as a participant to the process, regarding special calculation methodologies used by the US and EU in anti-dumping proceedings⁶.

As such, the CPC recommends that the Government of Canada completes an impact assessment on changes to the calculation methodologies of dumping if the People's Republic of China and other non-market economies are granted Market Economy Status. In addition, the CPC also recommends not granting Market Economy Status to the People's Republic of China as a precondition for Canada to enter free trade talks.

⁴ Neumann, Ken. [Evidence, Standing Committee on International Trade](#). March 9th, 2017.

⁵ Dr. Lee, Ian. [Evidence, Standing Committee on International Trade](#). March 9th, 2017.

⁶ Galimberti, Joseph. [Evidence, Standing Committee on International Trade](#). March 9th, 2017.

Conclusion

Inclusively, the CPC agrees with the overall analysis of the committee's report. Drawn from the study and witness testimony, the Canadian steel industry is capable of successfully competing in the global market place provided that competition is on a level playing field. Factors that currently need to be assessed and addressed include the imbalance of Canadian taxation against Canadian steel manufacturers through measures such as the carbon tax, as well as international disparity of steel dumping.

Given that maintaining access to the US market should be Canada's number one international trade priority, the Government must oppose any unilateral action by the United States to restrict steel imports from Canada.

We must continue to work collaboratively with our North American partners on coordination in trade remedy enforcement and addressing global access capacity as laid out in the 2016 North American Leaders' Summit declaration.

NDP SUPPLEMENTARY OPINION

The New Democratic Party (NDP) welcomes the Committee's study on the Canadian steel industry's ability to compete. The study comes at a critical time for the sector, which is under attack by unfair international trade practices like dumping. With the United States contemplating swift and potentially sweeping actions against such practices, Canada must prioritize strengthening our trade remedy rules.

While the NDP supports the report's conclusion and recommendations, we believe the report should have gone further in emphasizing the need to work in close partnership with the United States and the need for urgent action by the government to defend and grow Canada's steel industry.

Canada's steel industry provides over 22,000 good middle-class jobs. For every one direct job, steel creates as many as seven spin-off jobs. While these jobs have declined over the past few decades, there remains strong growth potential – as outlined by a range of witnesses who testified before the Committee. This growth can only be realized if the federal government takes urgent action to curb steel dumping and maximize the sector's many competitive advantages.

Witnesses emphasized that retaliatory action against 'Buy American' policies would not be helpful. However, Canada can simultaneously support our steel sector and address unfairly dumped steel by implementing measures that will encourage the use of domestic steel in federally funded infrastructure projects or other government procurement contracts. This can be done by fairly evaluating steel for the level of GHG emissions generated during production and transportation, and for the presence of health, labour and safety standards during production and manufacturing.

It is also important to note two significant developments that occurred after the Committee heard from the majority of witnesses.

First, on March 22, 2017 the government proposed reforms to Canada's trade remedy system in Budget 2017, some of which were later reflected in Bill C-44, the *Budget Implementation Act*. The NDP welcomes actions to strengthen trade remedy rules as we believe both legislative and regulatory changes are urgently needed. But while C-44 is a good start, it does not contain all necessary changes.

For example, C-44 does not address the Budget's commitment to "provide unions with the ability to participate in trade remedy proceedings." The United Steelworkers specifically recommended that unions be allowed to file anti-dumping and countervailing duty complaints under section 31 of the *Special Import Measures Act*, file safeguard complaints under section 23 of the *Canadian International Trade Tribunal Act*, and participate fully in the process leading to the imposition of anti-dumping duties and countervailing duties.

Unions and industry have an established history of working in close partnership to advance their shared interests. In other jurisdictions where unions are able to file complaints, they often do so in collaboration with producers, as unions can be in a unique position where they are not beholden to external stakeholders. Therefore, the government's promise to expand union participation in trade remedy proceedings should address all three of the United Steelworkers' recommendations.

The NDP will continue to work with all stakeholders, including labour, producers and industry groups, to ensure Canada's trade remedy system is effectively strengthened to respond to the sector's needs.

Second, on April 20, 2017 U.S. President Donald Trump issued a Presidential Memorandum ordering a U.S. Department of Commerce investigation under Section 232 of the *Trade Expansion Act of 1962* into the impact of steel imports on U.S. national security. The NDP is deeply concerned by the potential outcomes of this investigation for Canada's steel industry, including that the U.S. may apply tariffs on steel imports from Canada and that Canada may increasingly be used as a dumping ground for cheap foreign-produced steel.

There is significant risk to Canada's steel sector if our two countries' trade remedy systems diverge. If the U.S. government, through 'Buy American' policies or otherwise, imposes restrictions on steel imports or applies tariffs to Canadian steel as a result of the Section 232 investigation, the federal government should urgently seek an exemption from these restrictions or tariffs for Canadian steel. Furthermore, the government must actively work in close partnership with the U.S. to address global steel dumping, and it must demonstrate to the U.S. the importance of working together—not against one another—on this critical issue.

Looking ahead, Canada must consider the potential implications of a free trade agreement with China for our steel sector. The Liberal government has expressed its clear preference to negotiate a free trade agreement with the People's Republic of China, which is the largest source of unfairly dumped steel. Witnesses consistently told our Committee that Canada's steel sector would have no problem competing on a level playing field, but it is impossible to compete with countries such as China that subsidize their producers and drive down global steel prices. The NDP urges the government to consider the testimony received by the Committee, and to remember that fair trade starts with following the rules and raising standards for working people.

In conclusion, the NDP presents the following recommendations which we would have liked to see included in the Committee's main report. We would also like to thank the witnesses who provided evidence to the Committee, including detailed proposals for strengthening Canada's trade remedy rules so that our steel sector can compete fairly and provide good quality jobs for present and future generations.

RECOMMENDATIONS

1. That the Government of Canada take immediate action to address issues where calculation of dumping margins do not accurately reflect the amount of dumping in the Canadian market, the need for enhanced and transparent processes available to the government in instances of circumvention, and clarification as regards the type and amount of evidence required to initiate trade cases.
2. That the Government of Canada consider prioritizing the 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.
3. That the Government of Canada implement measures that will encourage the use of domestic steel in federally funded infrastructure projects or other government procurement contracts by taking into account the level of GHG emissions generated during production and transportation, and the presence of health, labour and safety standards during production and manufacturing.
4. That the Government of Canada negotiate trade agreements in such a way that defends our ability to promote the use of domestic steel in federally funded infrastructure projects or other government procurement contracts.
5. That the Government of Canada grant labour unions an expanded role in Canada's trade remedy system, including rights to file and participate in trade remedy complaints.
6. If the U.S. government, through 'Buy American' policies or otherwise, imposes restrictions on steel imports or applies tariffs to Canadian steel as a result of the Section 232 investigation, the federal government should urgently seek an exemption from these restrictions or tariffs for Canadian steel.

