CSPA ACPA
Canadian Steel Producers Association

Ongoing Recognition of China's Non-Market Economy Status

Keeping Canada's Trade Rules Effective

TRADE RULES CRUCIAL TO CANADA'S SUCCESS

Trade exposed industries in Canada rely on effective, evidence based domestic trade rules;

- Our success as a trading nation is tied to a policy which promotes trade governed by market disciplines;
- Where fair market conditions prevail, Canadian interests succeed.

It is crucial to maintain an effective and competitive trading relationship with China <u>based on international rules.</u>

Granting China Market Economy Status Would Harm Canadian Interests

To preserve and advance fair trade, global trading rules have treated China as a non-market economy since 2001.

Our domestic trade rules have followed suit, mitigating the impacts of distorted trade from China. Canada has taken the right approach.

China is a non-market economy, and will be continue to be a non-market economy for the foreseeable future.

Prematurely granting China market economy status would have significant negative impacts to domestic manufacturing and to the Canadians those enterprises employ.

WHAT IS A"NON-MARKET ECONOMY" ?

A non-market economy exists where government influence causes domestic prices to be lower than they would be in a competitive market.

In these circumstances, Canada's *Special Import Measures Act* (SIMA) provides the Canada Border Services Agency (CBSA) with the ability to use special rules to calculate competitive fair-market prices.

Without these special rules, China's unfair export pricing practices would be hidden, making Canada's trade remedies ineffective.

CANADA ALREADY HAS THE RIGHT APPROACH

In 2013, the Special Import Measures Regulations were amended specifically to address automatic expiry dates for non-market economy countries.

The regulatory impact states that the expiry dates **“were removed to ensure that Canada’s trade remedy system can continue to take into account whether these countries are operating according to market economy conditions”.**

The regulatory change in 2013 has preserved Canada’s competitive position, facilitated foreign direct investment and maintained alignment with our key trading partners.

Canada’s steel producers appreciate this commitment to continued enforcement of NME provisions beyond 2016 and have invested in Canada accordingly – changing our approach would have significant negative domestic consequences.

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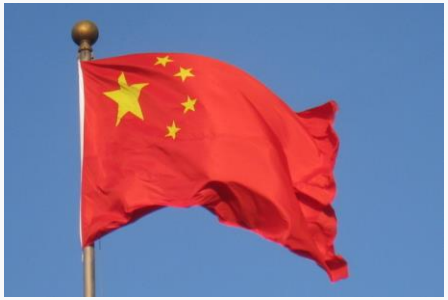
China is not a Market Economy

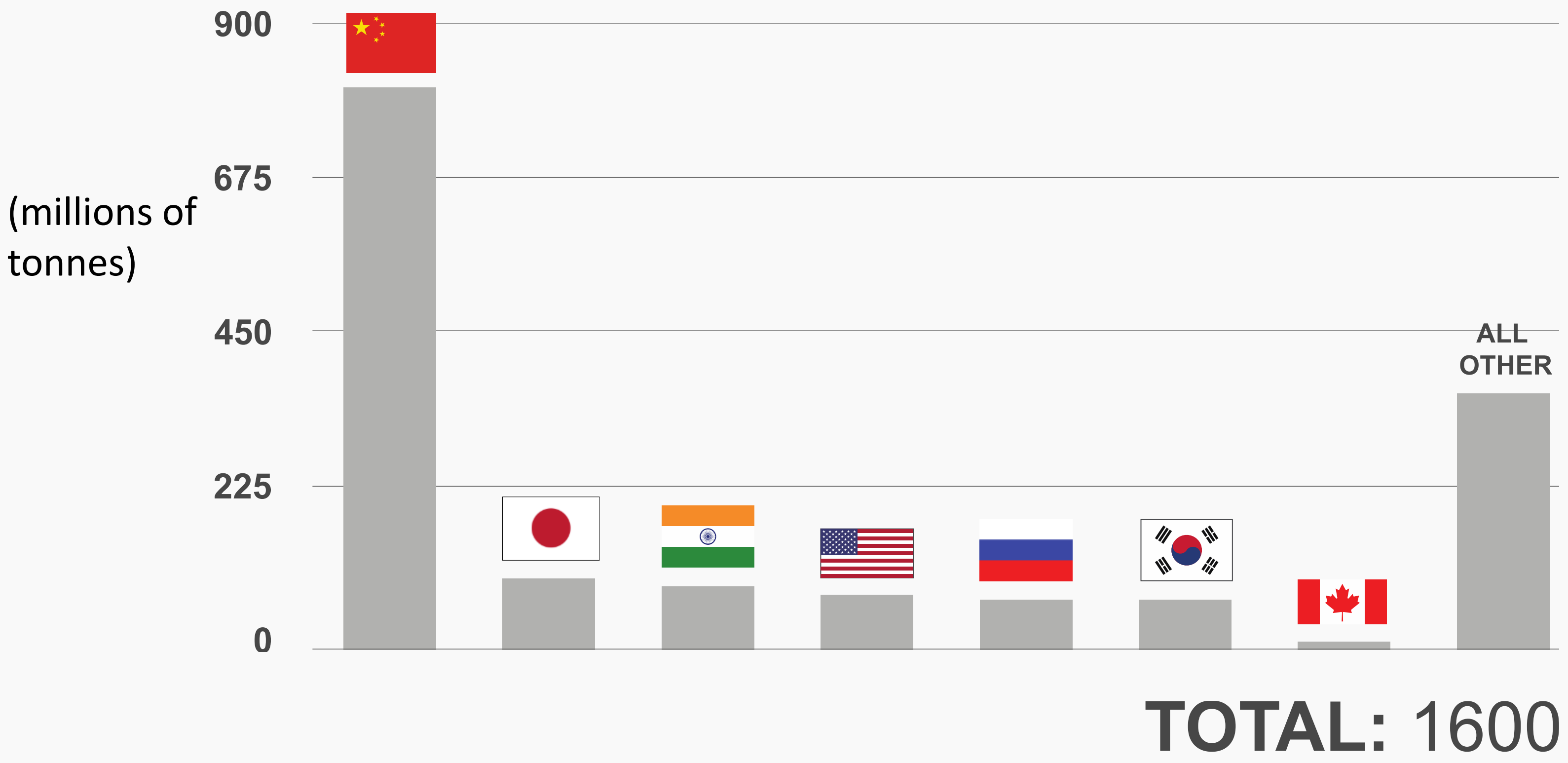
CHINESE STEEL PRODUCTION CHARACTERIZED BY NON-MARKET BEHAVIOURS

- **China imposes state control and distortions including:**
  - state ownership of firms;
  - state financing of strategic industries (i.e. steel);
  - non-transparent price/cost formation;
  - policies allowing unprofitable firms to continue operating; and,
  - subsidization of inputs (labour, material).



- **These non-market policies have resulted in:**
  - Steel production is not market based – production is developed and retained as social programming;
  - Chinese share of global steel production increasing from 10% in 2001 to over 50% in 2015 and,
  - Unfair dumping of excess steel into the world market has suppressed global pricing to record lows.

THROUGH NON-MARKET BEHAVIOR, CHINA DOMINATES GLOBAL STEEL PRODUCTION



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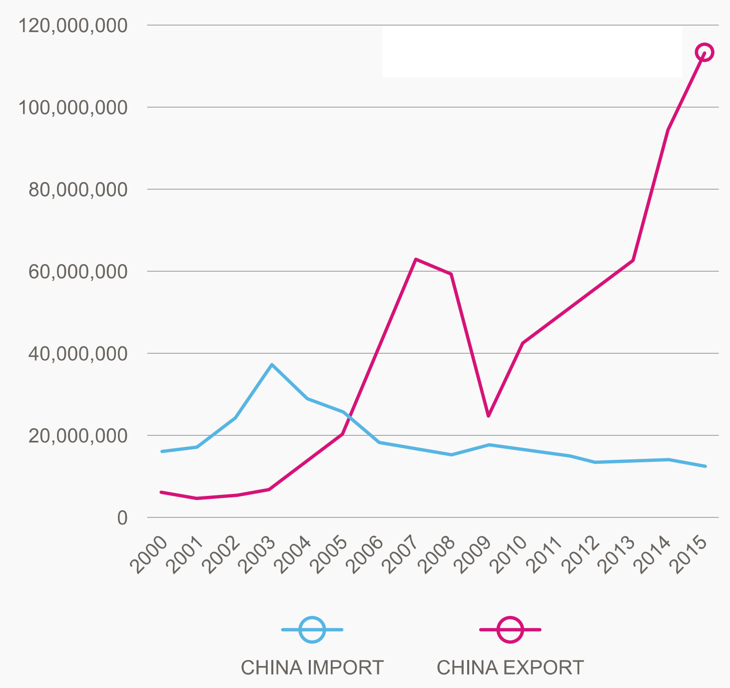
CHINA'S NON-MARKET BEHAVIOR HAS CAUSED SIGNIFICANT DAMAGE TO GLOBAL PRODUCERS

Since 2013, domestic Chinese steel demand has been in decline resulting steel exports up 95%

Record Chinese steel exports of 113 million tons in 2015 (this alone represents over 7x the Canadian market)

This has significantly depressed North American steel prices

CHINA'S STEEL TRADE
2000-2015 IN METRIC TONNES



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NON-MARKET BEHAVIOR AN ACKNOWLEDGED REALITY

The Chinese government is forcing production to continue in order to maintain employment no matter the cost.

"Some enterprises want to exit, but an exit route has not been opened up… and some local governments continue to urge steel firms to produce in the interests of local economic development and social stability."

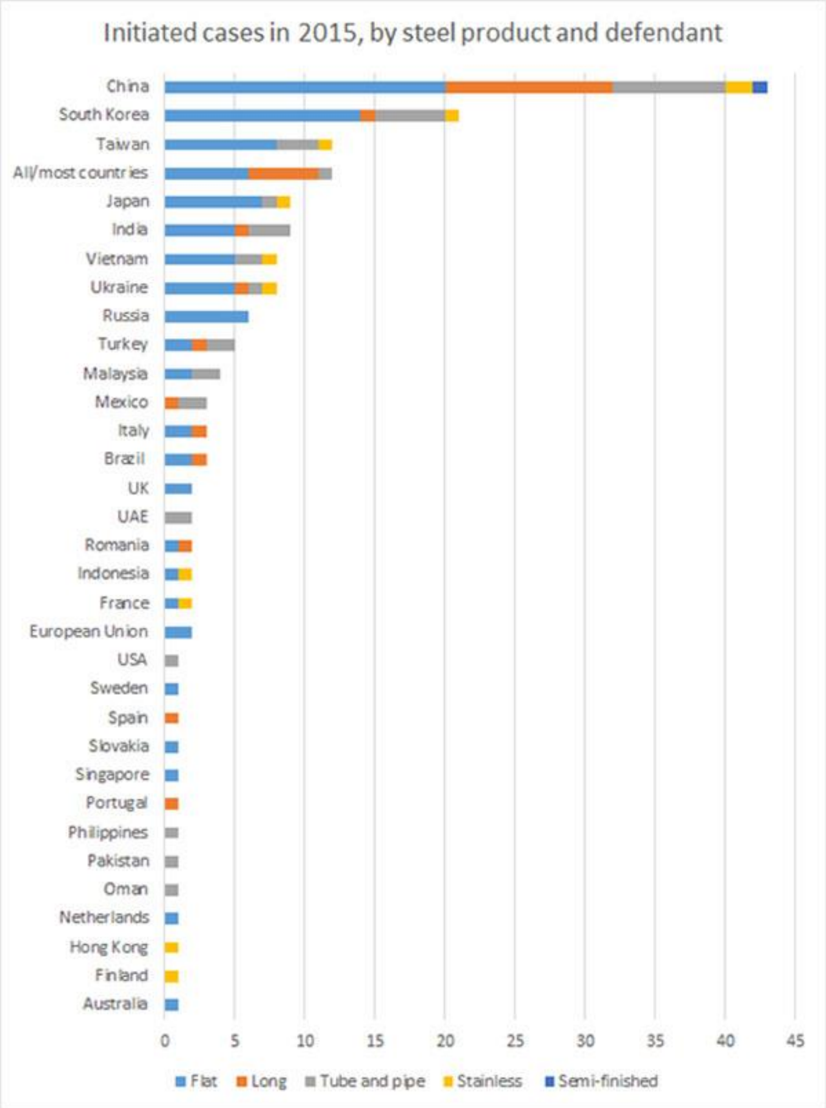
- ***Mr. Zhang Guangning***
  Chairman, China Iron and Steel Association

DEFENDING FAIR DOMESTIC MARKETPLACE IS IMPERATIVE

The number of trade cases being initiated on China is the direct result of a pattern of non-market behavior in steel.

Canada should not treat China as a market economy until this behavior is addressed – to do so would needlessly undermine domestic trade defences.

Weakening Canada's domestic trade remedies in light of this trend makes Canada a more attractive target for dumped and subsidized steel.



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Impacts to Canada

INDEPENDENT ANALYSIS SHOWS SEVERE IMPACT ON CANADA'S MIDDLE CLASS

If China is granted market economy status:

- **60,000** highly-skilled **middle class** jobs lost, including **$8 billion** in wages
- **Permanent reduction** in GDP – up to **$9.1 billion** short-term, **$7.6 billion** long-term.
- **Federal government revenues reduced** – up to **$1.2 billion** short-term, **$0.9 billion** long-term.
- **Provincial government revenues reduced – up to $1.1 billion** in the short-term, **$0.7 billion** long-term.

FUTURE OF CANADIAN MANUFACTURING AT STAKE

The foundation of Canada’s domestic manufacturing supply chain is at stake. Canada’s continued recognition of and adjustment for China’s non-market behavior is critical to the sustainability and future of investment in Canada.

A renewed commitment from the Canadian government that policy on China’s status remains unchanged is an important signal that the government shares this belief.

This position is strongly supported by the Canadian Manufacturing Coalition (CMC) and the United Steel Workers (USW).

CHINA'S NME STATUS PRESERVES COMPETITION

- China agreed to be designated as a non-market economy (NME) during its WTO accession in 2001
- Continued enforcement of non-market provisions maintains our alignment with key trading partners, changing course will strain important bilateral relationships, especially within NAFTA.
- Canadian manufacturers cannot be placed at a competitive disadvantage.
- Investment, middle class employment, productivity and government revenues will suffer significant consequences.

CANADA SHOULD CONTINUE ITS PRINCIPLED APPROACH TO CHINA

- An effective and competitive trading relationship with China is important to Canada but must be based on adherence to WTO rules
- Domestic trade defenses are crucial and should not be weakened in ways which distort the free market.
- **Canada must not prematurely grant China market economy status and undermine existing trade remedies.**
- Decisions on granting market economy status should be based on evidence of transition to a market economy.

PRESERVING NON-MARKET ECONOMY TOOLS FOR CHINA

Canada Border Services Agency (CBSA) must be allowed to continue assessing China's non-market economy conditions for the purposes of anti-dumping measures.

Numerous CBSA investigations have concluded that the Chinese steel industry continues to exist in a non-market environment. The most recent example of such a finding is the March 2016 determination on line pipe.

Hindering the ability to prove China's non-market conditions denies fundamental realities of the Chinese economy. This would be devastating for manufacturing in Canada including steel, aluminum and solar panels.

Anti-dumping provisions and duties provided by continued recognition of China's non-market economy status are crucial to maintaining a fair and open marketplace.

CANADIAN GOVERNMENT POLICY ALIGNS WITH KEEPING CHINA'S NON-MARKET ECONOMY STATUS

Addressing Climate Change: Steel production in China is extremely carbon intensive - Canadian Steel used in Canada has a significantly smaller environmental footprint.

Growing the Middle Class: Granting China market economy status will hurt Canada's middle class – NME provisions help middle class families succeed.

Expanding Trade: Canada has an important opportunity to facilitate a dialogue on China's economic transition to a market economy.

All of these require maintaining China's Non-Market Economy status until China verifiably fulfills its obligation to transition to a market economy.