CSPA ACPA

May 9, 2016

Rémi Bourgault
Clerk of the Standing Committee on International Trade
House of Commons
Ottawa, Ontario
K1A 0A6

RE: House of Commons Standing Committee on International Trade – Study on the Trans-Pacific Partnership (TPP) Agreement

Mr. Bourgault,

On behalf of members of the Canadian Steel Producers Association (CSPA) we would like to sincerely thank you for the opportunity to share our perspective on the potential impacts of the Trans-Pacific Partnership (TPP) agreement on our industry.

Overview

We believe that free trade agreements (FTAs) must support the goal of increasing investment in and growth of, Canadian advanced manufacturing supply chains (auto, energy, construction/infrastructure). Put another way, FTAs must result in positive increases to trade balances for these supply chains and enable them to continue satisfying domestic demand while creating platforms for increased global exports. If these agreements don't do this, than they will fail Canadians and the tens of thousands of middle-class workers who depend on their ongoing viability. In addition, any new measures deriving from the implementation of a new FTA should not undermine the long- term global competitiveness of Canadian steel-makers.

In regards to the negotiation of new FTAs, the CSPA holds as principles the need for these agreements to provide the following:

- **Sufficient consultation with all affected industries prior to and during negotiations**
- **Reciprocal market access**
- **Retained and strengthened domestic supply chain relationships**
- **Enhanced automotive investment in Canada**
- **Robust market-based trade with strong provisions to mitigate unfairly traded imports**
- **Promotes the overall economic interests of Canadian manufacturers**

The TPP presents several challenges that may negatively impact the domestic steel industry. Regarding the impact of a TPP on direct steel trade, it is highly unlikely that this FTA will result in any increase in Canadian steel exports to Asia given the massive production capacity surplus that exists in that region. Beyond direct impacts to steel, our industry is primarily concerned about negative effects that could be felt by key customer segments such as automotive manufacturing.

From our perspective, the four main issues surrounding the TPP include:

- **Weakened automotive rules of origin/reduction in regional value content requirements**
- **Tariff differentiation on imports from TPP countries (autos)**
- **Lack of effective, enforceable controls for State Owned Enterprises (SOEs)**
- **Lack of effective, enforceable controls over currency manipulation**

While these outcomes are at least the partial result of the failure to convene a sincere dialogue with affected industries prior to the agreement's conclusion, at this point, assessments should be forwarding looking and focused on mitigating the harm that could result from implementation.

Primary Impacts from TPP on Canadian Steel Industry and our Supply Chain Customers

Automotive Rules of Origin/Regional Value Content

Canada's automotive sector represent approximately **1/3** of the annual demand from Canadian steel mills. Our supply chains are inextricably linked and the health the domestic steel industry is directly tied to the ongoing prosperity of the automotive parts and vehicle manufacturing sector. Auto supply-chains create economic activity and jobs from coast-to- coast, from mining through to steel production, parts manufacturing, auto assembly, and related business services, e.g. truck and rail transport.
Recent assessments by the Automotive Parts Manufacturers' Association (APMA) and the CEO of Ford Motor Company of Canada have pointed to a net negative impact on domestic automotive manufacturing as a result of the TPP. It will mean increased imports and the reduction of market potential for all points along the Canadian auto supply chain including input suppliers (primarily steel), part making, vehicle assembly, distribution, transportation and vehicle assembly.

We are quite concerned that the TPP rules of origin include substantially lower requirements for regional value content (RVC) for auto parts and light-duty vehicles than currently exists under the North American Free Trade Agreement (NAFTA). TPP final rules of origin allow for parts and vehicles whose vast majority is sourced in non-TPP countries (primarily China) to be sold virtually tariff-free in North America and this will lead to lower North American production of auto parts and vehicles.

Current rules under NAFTA require a regional value content of **62.5%** for autos and light-trucks, along with their engines and transmissions and a regional value content of **60%** for other auto parts. During TPP negotiations, the CSPA opposed lowering value content requirements to anything less than **50%.** The TPP includes a reduction of automotive regional value content in auto parts to **30%** and in finished vehicles to **45%**.

In addition, the TPP rules of origin terms allow for parts and vehicles whose vast majority is sourced from non-TPP countries (such as Korea and Vietnam) to be sold tariff-free in North America. Free Trade Agreements should not confer an advantage to countries whose primary supply chain is located outside the FTA, thereby disrupting or dismantling long-established integrated supply chains in Canada including steel producers.

Tariff Differentiation (autos)
Under the TPP agreement, tariffs on imports of finished vehicles from TPP member countries fall from **6.1% to zero** in only **5 years** vs. the US who negotiated a **25 year** schedule for their tariff reduction and puts Canadian vehicle manufacturers at a further disadvantage. The numbers of Asian-built vehicles imported (most notably from Japan) to Canada would likely rise with this tariff reduction, further displacing domestic production and reducing demand for Canadian produced steel. There are currently no provisions that would require increased Asian-made vehicle assembly to be located here proportionate to Canadian sales of these makes.

Lack of Effective, Enforceable Controls for State Owned Enterprises (SOEs)
As written, the provisions for State-Owned Enterprises contained in the TPP agreement will not ensure a level playing field for private sector corporations operating in Canada. What is included is not enforceable and does not address the significant intervention of Chinese government-owned/controlled companies (especially in steel) in TPP member countries.

SOEs often have advantages conferred on them by their government owners. These include: preferential tax rates, public grants and capital injections. Effective, enforceable controls should ensure that those numerous market advantages are not used against competitors in Canada.

Lack of Effective, Enforceable Controls for Currency Manipulation
In addition, despite widespread calls from many stakeholders, the TPP includes no enforceable disciplines on currency manipulation. Several TPP members including Japan, Malaysia, and Singapore are well-known currency manipulators. These countries spend billions of dollars buying foreign assets to artificially suppress the value of their currencies.

Currency manipulation distorts trade flows by artificially lowering the cost of imports and raising the cost of our exports. This distortion is used against competitors to unfairly gain market share in importing countries. If uncontrolled, this will further erode Canadian jobs.

Mitigating Impacts of TPP on the Canadian Steel Industry

The Government of Canada should implement policies which buffer the potential negative impacts of the TPP, while supporting the broader goal of increasing investment and growth of advanced manufacturing supply-chains. These actions include the following:

1. Trade Remedy Modernization (TRM)
We believe that moving forward with the TPP provides additional incentive to accelerate the modernization of Canada's trade remedy system so as to mitigate injury to Canadian manufacturers from dumped and subsidized imports.

The principle of two-way gains from FTAs must always be premised on market-based fair trade. Some of the TPP signatories have been found to contravene well-established WTO trade rules through product dumping and subsidization, thus distorting markets and displacing domestic production. Such imports undermine Canadian supply chain opportunities in automotive and other key markets, such as energy development and construction (including public infrastructure projects). There should be no 'free ride' for dumped products through FTAs, and should not include any measures that would weaken the system in Canada.

We were very pleased to see the Government of Canada recognize the importance of Trade Remedy Modernization (TRM) in Budget 2016 and commend them for implementing two of our proposals while also proceeding with consultations on the other measures. We view these proposed changes as essential, as we face growing levels of unfairly-traded imports, large and growing excess steel production capacity, and increased efforts to evade duties already in place.

2. Continued Recognition of China's Non-Market Economy (NME) Status

We strongly support the continuation of the status quo in regards to the treatment of China for the purposes of trade remedy processes under the Special Imports Measures Act (SIMA). Given China's great regional influence through direct participation in TPP members' manufacturing sectors, this aspect is quite relevant to considerations involving this FTA.

China's well-established pattern of non-market behaviour in the steel industry has had significant global consequences. By continuing to maintain more than **450 million tons** of surplus production capacity, China's state-owned and supported steel sector has disrupted global trade patterns, forced reductions in the production volumes of their market-based competitors and degraded pricing of steel products around the world.

Trade-exposed sectors like steel rely on effective, evidence-based domestic trade rules including those for non-market economies. Our success as a trading nation is tied to policies that promote trade governed by market disciplines. Where fair market conditions prevail, Canadian interests succeed. Changing Canada's approach to China's NME status would undermine these principles and needlessly disadvantage Canadian manufacturers. Investment, middle-class employment, productivity and government revenues could suffer significant consequences.

3. Automotive investment

Historically, Canada was responsible for producing approximately **17%** of all automobiles manufactured in North America. This has trended downwards over the past **15 years** and is now somewhere under **10%**. Canada's negotiation of any new FTA's should endeavor to reverse this trend. The potential negative impacts of the TPP on Canadian automotive manufacturing reinforces the need for other pro-investment policies with retention and growth of domestic assembly plants being essential opportunities.

With the expectation of increases in the automotive trade deficit resulting from the TPP, the CSPA seeks a strong commitment by the federal government to work with the automotive sector, the provinces, supply chain partners, and others to (a) secure reinvestment in existing auto assembly facilities, and (b) to attract into Canada large North American automotive assembly investment. We propose Canada set as an objective the attraction of at least **one of every six** new NAFTA auto plants going forward.

Governments can play a significant role in attracting these investments to Canada. As part of expanded commercial relationship with TPP countries, the government should commit actively to encourage the automotive industry to invest directly in Canada. This would create new demand potential for Canadian steel and other supplier industries.

4. Approval of New Energy Pipelines and Liquefied Natural Gas Facilities
Energy transportation networks such as pipelines and other supporting infrastructure are critical to the Canadian steel industry and related supply chains across the country. Not only do they increase the capacity for our energy producers, but the steel that goes into the discovery, extraction, movement, and export of these resources contains significant amount of Canadian made steel products. Accelerating the development and export of Liquid Natural Gas (LNG) resources can also offset global greenhouse gas (GHG) emissions by helping to replace coal usage in several Asian countries.

In addition, growth of Canada's domestic green energy sector is critical with steel being a primary component for related power generation equipment and supporting infrastructure. The Government of Canada should work with all relevant stakeholders to ensure necessary energy pipeline, LNG projects, and renewable energy manufacturing come to fruition with strong regard for both economic and environmental considerations. As discussed further below, the Canadian-made steel in these projects is the steel with the lowest full-cycle GHG emissions.

5. Government Procurement Guidelines that Account for Greenhouse Gas (GHG) Emissions
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.

With the total carbon footprint of Canadian produced steel being orders of magnitude lower than using imported products 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. Notably, 80**%** of Canada's electricity is generated by non-emitting power sources such as hydro, nuclear, and wind.

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 strongly recommend that the Government of Canada integrate the assessment of full-cycle GHG emissions into procurement guidelines for steel products being used in related projects.

6. Job Retraining
We are concerned about continued employment in the steel sector as a result of the TPP. As part of any package of measures, it is essential that the federal government provide a significant boost to job retraining resources for affected individuals who may have to acquire the necessary skills and abilities to enter the workforce in another industry.

Conclusion

We believe that addressing the above-noted items will strengthen the competitiveness of Canada's **$14 billion** steel industry, benefit thousands of middle class Canadian workers, and enhance Canada's overall economy while further securing our nation's competitive position in the world market. Thank you again for this opportunity to provide our input and we look forward engaging with you further as this process continues to unfold.

Sincerely,

Joseph Galimberti, President, Canadian Steel Producers Association