

2018-03-01

The Honourable William Francis Morneau
Department of Finance Canada
90 Elgin Street
Ottawa, Ontario
K1A 0G5

Dear Minister Morneau,

As the Board of the Canadian Steel Producers Association, we are writing you today to seek your assurance that the Department of Finance and Government of Canada will be prepared with an immediate and effective policy response, to the United States' imminent implementation of measures associated with their Section 232 investigation on the effect of imports of steel on national security.

As you are most certainly aware, recommendations from the U.S. Department of Commerce's Section 232 investigation were submitted to President Trump on January 11, 2018 and publicly released by Commerce Secretary Wilbur Ross on February 16, 2018. The report finds that steel imports "threaten to impair the national security of the United States," as defined by Section 232 of the *Trade Expansion Act*, and recommends to the President three alternative courses of action:

- 1) A global tariff of at least 24% on all steel imports from all countries, or
- 2) A tariff of at least 53% on all steel imports from 12 countries (Brazil, China, Costa Rica, Egypt, India, Malaysia, Republic of Korea, Russia, South Africa, Thailand, Turkey and Vietnam) with a quota by product on steel imports from all other countries equal to 100% of their 2017 exports to the United States, or
- 3) A quota on all steel products from all countries equal to 63% of each country's 2017 exports to the United States.

Each of the proposed options implies catastrophic consequences for Canadian steel producers and the thousands of Canadian businesses supported by our industry. Specifically, these measures will harm the Canadian interests by significantly diminishing access to the U.S. market into which over 40% of Canadian steel is currently exported, and by diverting foreign steel originally intended for the U.S. market into Canada.

Ongoing Canadian efforts to secure a full exemption from the measures outlined above, including a thorough examination of immediate steps to address U.S. concerns related to circumvention and transshipment, are appropriate and important. However, there should simultaneously be a rapid, aggressive policy discussion to identify the actions that the Government can take in the event that Canadian exports to the U.S. are restricted in any fashion, as well as for the defence of our home market from steel diversion effects.

The imposition of severe and possibly long-term restrictive measures on Canadian steel products will create market access barriers to our largest and most significant export market. These trade barriers, designed explicitly to boost U.S. capacity utilization, will demand immediate government action to limit the damage to Canadian producers. Canada's response could include, but should not be limited to, actions initiated under Section 53 of the *Customs Tariff* and we would welcome the opportunity to discuss with your officials how such measures could be implemented quickly and effectively.

In addition, regardless if Canada obtains an exclusion from these measures, there will be a severe injury to Canadian producers from the volumes of foreign steel diverted to Canada as products originally bound for the U.S. will be quickly diverted to our exposed market where no suitable trade defences exist.

Canada's exposure to offshore diversion is severe. The net effect of achieving the Commerce Department's goal of an 80% capacity utilization level in the United States implies a displacement of 13 million metric tonnes of foreign steel imported into that market annually. As context, the entirety of the Canadian domestic steel market is approximately 15 million metric tonnes (of which offshore imports already represent 24%). In a post-232 global steel environment, the diversion risk to Canada is further compounded by the expectation that the EU and other nations will initiate defensive actions of their own to protect against displaced steel. If Canada does not immediately act to defend the domestic industry in this environment we should expect significant, generational harms to Canadian producers and employees as a result.

There are existing policy tools available to the Canadian government to address the diversion of steel into Canada, including targeted government-initiated safeguard actions and government-initiated trade cases. These actions are not mutually exclusive and should be given urgent consideration given the exceptional circumstance likely to be created by the imposition of remedies recommended in the 232 report.

We also believe the Government should immediately initiate a dialogue with Canadian producers to determine if new legislative and regulatory options can be implemented on a fast track basis to defend the industry from harms associated with diversion and export limitations expected as the result of the 232 investigation. This truly unique circumstance in global steel trade which will be created by the remedies contemplated in the 232 investigation report may require the development of regulatory and/or policy tools not currently available to the Government of Canada, and we would welcome any discussion with your department to determine how our interests can be most effectively defended.

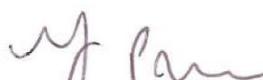
In closing, we would note that although the statutory deadline for President Trump to announce which policy measures he will implement in response to the Section 232 recommendations is April 11, 2018, there is nothing preventing immediate Presidential action. As such, appreciating the urgent threat to Canada's economic interests, we encourage you to ensure this matter is an urgent priority for your Department and commit to provide any and all appropriate resources from our companies to assist you in your efforts.

Thank you for your attention in this matter.

Respectfully,



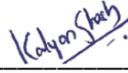
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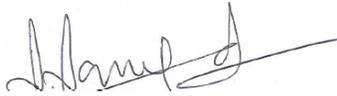
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Tenaris Canada



Mr. Carlo Coscia
Business Manager, Powder & Steel
Rio Tinto Fer et Titane

Cc:

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The Honourable Chrystia Freeland, P.C., M.P.

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