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—
Chair

The Honourable Mark Eyking

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• (1110)

[English]

The Chair (Hon. Mark Eyking (Sydney—Victoria, Lib.)): We're going to start our study. It's officially called the "study of the Canadian steel industry's ability to compete internationally".

When did this motion come forward? Last month.

How many meetings do we have allocated? We have today, and then, after CETA, are we going to do a couple more days?

The Clerk of the Committee (Mr. Rémi Bourgault): After CETA, we will have three more meetings.

The Chair: Okay, and we're going to start pulling witnesses in from where?

The Clerk: We'll see exactly when we complete CETA. We're floating the names.

The Chair: However, we're going to ask committee members to bring you a list, right?

The Clerk: Yes, they're to bring a list to me today at noon.

The Chair: Does everybody have that? Good.

Without further ado, we have some officials here to kick off our study. Thank you for coming.

You know what we're doing for the next few days, and we're also dealing with CETA if it pops through, but we're going to try to get the study done before the Christmas break and put some sort of paper forward to the House.

Without further ado, thank you for coming. The floor is yours for however long you want to have it. I understand that one person will be speaking on this right now.

Go ahead, Paul.

Mr. Paul Halucha (Assistant Deputy Minister, Industry Sector, Department of Industry): Good morning and thank you for the opportunity to appear as you kick off your study of the steel industry.

I have some short prepared remarks that I'll go through that reflect the input of everybody at the table, the three departments.

[Translation]

On behalf of my colleagues from the Department of Finance and Global Affairs Canada, let me express our gratitude for the opportunity to appear before this committee to discuss the Canadian steel industry. I have been asked to deliver opening remarks on behalf of all three departments.

[English]

Let me begin by speaking to the responsibilities of the three departments appearing as witnesses.

Innovation, Science and Economic Development Canada is the lead department responsible for analysis and policy development regarding Canada's steel sector. This includes focusing on innovation and productivity issues.

The Department of Finance is responsible for import policy, including trade remedies, which are used to address dumping and subsidizing.

Global Affairs Canada is the lead on Canada's international relations and World Trade Organization issues.

Together, our departments work collaboratively on issues important to Canada's steel sector.

Let me speak for a minute to the steel sector significance and a bit of background.

The steel industry constitutes a major pillar of the Canadian economy, supporting nearly 17,000 jobs directly and contributing about \$2.6 billion directly to Canada's GDP. Besides the direct jobs, the industry plays an important secondary role as a key supplier to North American manufacturers, the energy sector, and the construction industry in particular, all of which derive billions of dollars in benefit from Canada's steel industry. However, difficult conditions are posing substantial challenges to the Canadian industry, which has suffered from weak demand, low prices, and intense competition. In this context, two of Canada's major steel producers, Essar Steel Algoma and U.S. Steel Canada, are now under creditor protection.

I'll turn now to some of the key issues.

[Translation]

One of the most pressing issues facing Canada's steel sector, and a key factor impacting the financial health of Canadian steel producers, is global excess capacity and the resulting increase of steel imports, particularly in terms of unfairly dumped and subsidized steel.

[English]

To put things in context, global steel-making capacity is approximately 2.4 billion tonnes. Canada has 20.5 million tonnes of steel-making capacity, which counts for approximately 1% of the global total. The capacity is small when compared to the approximately one billion plus tonnes of capacity in China, followed by second-place Japan with approximately 131 million tonnes. According to studies by the Organisation for Economic Co-operation and Development, in 2015 the world excess capacity stood at approximately 850 million tonnes.

This excess capacity has grown due to government intervention and control in countries providing subsidies that create or maintain excess capacity or allocate resources to the steel industry and implement border measures that encourage production and exports. The addition of new capacity, particularly in developing countries, has occurred despite data that continues to demonstrate an excess of supply and low global demand.

While not all of this excess capacity is being used, significant quantities of excess steel are still flooding the global market. This excess supply creates downward pressure on global steel prices, unfairly undermining competition in open markets like Canada.

In facing this challenge, countries are taking various measures to address imports and retain domestic markets for domestic producers. These measures, however, can have significant knock-on effects as countries look for alternative markets to which they can export their steel. Further excess steel depresses prices in manufacturing supply chains. For example, Canadian fabricators working with their partner steel companies can lose contracts for infrastructure projects to competitors using inferior dumped steel hidden in a manufactured product that's imported.

The Government of Canada is working on many fronts to respond to these challenges. This includes increased procurement opportunities for domestic firms and financial support for advanced technology development and adoption to increase the efficiency and sustainability of Canadian production. With respect to trade remedies, the government has made changes to strengthen the trade remedy system, and is considering further action in this area.

Our departments work closely on steel issues with our NAFTA partners through the North American steel trade committee. Recently, this extended to collaborative work with our NAFTA partners on the enforcement of steel-trade remedy measures with Canada's participation led by the Canada Border Services Agency.

• (1115)

We also work with other steel-producing countries on the issue of overcapacity at the OECD and the World Trade Organization. Concurrently, through our efforts with the G20, we are working to establish a global forum on steel excess capacity, and this was announced as part of a communiqué from the most recent G20.

[Translation]

Before I end my opening remarks, let me say a few words about technology, innovation and skills within the steel sector.

While the situation of global excess is a significant challenge, Canada has a very advanced steel industry, producing extremely

high quality steel, be it high strength steel for the energy sector, or super-lightweight steel for the automotive industry.

[English]

This capital-intensive industry has the highest productivity rates among Canadian manufacturing sectors. Recent capital investments by industry have resulted in Canadian mills being among the most energy efficient and automated in the world.

Canada also produces steel that is significantly less carbon-intensive due in large part to the fact that significant inputs, particularly electricity for steel-making, come from non-emitting sources.

The industry across the country maintains linkages to universities, colleges, and research institutions, which ensure that the sector has the highly trained, highly skilled workforce it needs.

Despite these positives, the global challenges facing the steel industry are considerable. Departments we represent will continue to work with other federal partners and fellow stakeholders to ensure the steel industry can remain competitive.

Thank you again for this opportunity. My colleagues and I look forward to your questions. *Merci.*

The Chair: Thank you.

We're going to have questions from the MPs, starting off with the Conservatives for five minutes.

Mr. Van Kesteren, you have the floor.

Mr. Dave Van Kesteren (Chatham-Kent—Leamington, CPC): Thank you all for being here.

I suppose at least some of you have been to China. I remember on my second trip to China, we visited a number of steel mills, and I read at that time that there's never been a major global power that hasn't been a leading steel producer. I forget what the statistics are, but what are they producing—about 80%? What is China producing at this point?

Mr. Patrick Hum (Senior Director, Manufacturing Industries Directorate, Manufacturing and Life Sciences Branch, Industry Sector, Department of Industry): China produces just over half of the world's steel right now.

Mr. Dave Van Kesteren: Okay. I thought it was 60%.

There's an interesting part of your presentation, which is that Canada also produces steel that is less carbon intensive. One of the things I noted when I was in China and we visited the steel manufacturer was that it was spotlessly clean. I've never seen a steel plant as clean as that. This was the fourth-largest steel manufacturer in the world and the third-largest in China. I think those were the statistics. It was staggering.

The other thing I noticed was that it had its own power plant. That power plant, of course, was powered by coal. The elephant in the room is precisely that. How do we become competitive in an industry that demands a huge amount of energy? We're switching over to electricity, but when they use coal—dirty coal, for the most part—and are able to do so without any limitations, how do we play a part in an industry like that?

Mr. Patrick Hum: That's a very good question. As Paul mentioned in his remarks, I think Canada's steel producers can be very competitive. In one sense, the steel markets are global, and steel is a very heavy commodity product to move around, so transporting it over large distances can become uneconomical. Within the North American market, certainly, Canadian producers can be quite competitive given their current structure.

Mr. Paul Halucha: Let me add to that. It is, as you pointed out, a really significant competitive advantage. Just look at some of the statistics here. According to the Canadian Steel Producers Association, Canadian mills produce an average of 42 kilograms of CO₂ per tonne, compared to 152 kilograms for the U.S., 598 kilograms for China, and 916 kilograms for India. We know there's a significant differential.

Globally, the effort that has been made and the attention that has been given to issues such as climate change are going to bring attention to dirty inputs, and I think there's going to be a shift in the market. We've seen this happen. 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. Where it has to happen first is in Canada, and I'm thinking in the context of the government's procurement strategies and infrastructure programs, to the extent that we have more than just the objective of economic growth. That's obviously critical, but the government has been very clear that it has additional social and environmental objectives it wants to see from innovation and from global growth. This positions Canadian steel very well to participate in that and to benefit from procurements that put some kind of weight on the CO₂ emissions of the inputs to those projects.

• (1120)

Mr. Dave Van Kesteren: I'm running out of time, but I must say that I'm somewhat puzzled. We live in a free market system, and in order to compete, we have to compete with countries such as China that don't have the ecological boundaries that we've adopted in this country. It's fine to say that we're setting an example and that we're going to be the ones lead the way, but meanwhile, people are buying and selling steel, and price determines who's going to be in the marketplace.

Mr. Paul Halucha: The issue you've put your finger on is the fundamental one, which is the degree of dumping that's happening on the market.

I take your point around the free market. My argument would be—and I think the trade officials can speak to this as well—that 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 competi-

tiveness 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. That's what we're seeing, and that's the challenge that's being faced globally. It's not just Canada that's suffering from that—

The Vice-Chair (Mr. Randy Hoback (Prince Albert, CPC)): I'll have to stop you there. You're well over your time. Hopefully you'll get a chance to finish your answer.

We'll move over to Mr. Dhaliwal.

You have five minutes, sir.

Mr. Sukh Dhaliwal (Surrey—Newton, Lib.): Good morning. I'm trying to understand what percentage of Canada's domestic needs is met by Canadian producers.

Ms. Michèle Govier (Chief, Trade Rules, International Trade Policy Division, International Trade and Finance Branch, Department of Finance): I can respond to that.

Based on the information we have—and part of this is based on the apparent demand in the Canadian market—60% is being supplied by imports and approximately 40% by the domestic producers.

Mr. Sukh Dhaliwal: So it's 60 and 40.

Do we do any exports?

Ms. Michèle Govier: Yes, absolutely.

I don't know if you have the statistics on the exports.

Mr. Patrick Hum: I believe that about 75% of our exports go to the United States.

Mr. Sukh Dhaliwal: No, but I'm saying—

Mr. Paul Halucha: Fifty per cent of Canada's sovereign steel production is exported, and 84% of that is to the United States.

Mr. Sukh Dhaliwal: Basically we are using 40% here, and 50% we're exporting. Is that correct?

Ms. Michèle Govier: We're supplying 40% of the domestic market, so—

Mr. Sukh Dhaliwal: Sixty per cent is exported.

Ms. Michèle Govier: Sixty per cent is supplied by imports, but then we are also exporting 50% of Canadian production to other markets.

Mr. Sukh Dhaliwal: What are the opportunities if we ratify the TPP? Do you think Canadian producers will benefit, or would it affect them negatively?

Ms. Michèle Govier: As they mentioned, 84% of our exports already go to the U.S. The U.S. is already a very open market with respect to steel trade, so I would say that with regard to the TPP, we already have very good access through NAFTA to our key markets. It does open up, potentially, markets in Asia, but as I think Mr. Hum had indicated, the transport costs for going overseas with steel are quite high. Those Asian markets are also supplied by very competitive producers within that region. In that sense there is a potential, certainly, but I'm not sure how much of that will be realized, given the realities that are being faced.

Mr. Sukh Dhaliwal: When it comes to dumping, that is a key concern. Can you explain this to me? We have legislation here, and we have anti-dumping regulations in Canada. When we compare those with those in the U.S. or Australia, where do we fall?

Ms. Michèle Govier: I think our anti-dumping system is a very effective system for the steel industry. It's very hard to compare different systems on a blanket basis. There are WTO rules that govern what's permitted in that space, and they're very detailed but allow a lot of flexibility as well, so people might choose to implement things a bit differently in each country.

That being said, if you look at some of the measures put in place in the U.S. on products we've put measures in place on, they're quite comparable in terms of level of protection. I don't have as much information about the Australian system, but I think we're on very good ground in terms of the effectiveness of our system and the ability to get measures in place that do their job in addressing dumping and subsidization.

• (1125)

Mr. Sukh Dhaliwal: The Canadian Steel Producers Association claims it is the other way. They are saying we are far behind when it comes to comparing those remedies with those of the U.S. and Australia.

Ms. Michèle Govier: There are some features of the U.S. system that are different from ours, to be sure. I think they are interested in seeing some changes to our system, which we're looking at to see whether they can be integrated into the Canadian context as well. Some of those features that are in the U.S. system haven't necessarily been used yet by the United States, so I would say that, in terms of the effectiveness, we aren't in a situation where we're falling behind in a practical sense. Certainly they've introduced things on the enforcement side, once measures are in place, that we're looking into to see whether there are benefits that can be brought to our system by focusing more in that area. While I would still argue that I think we have a very good and effective system, we're certainly looking at different options for whether there are areas for improvement.

Mr. Sukh Dhaliwal: Do you think dumping will be better or worse if we ratify the TPP?

Ms. Michèle Govier: Do you mean whether we would be able to address dumping more or less?

Mr. Sukh Dhaliwal: That's right.

Ms. Michèle Govier: The TPP itself won't affect our ability to address dumping. We don't change our trade remedy system as a result of the TPP. It continues to apply to the TPP countries should they be found to be dumping or subsidizing.

Mr. Sukh Dhaliwal: Okay.

Thank you.

The Vice-Chair (Mr. Randy Hoback): Ms. Ramsey.

Ms. Tracey Ramsey (Essex, NDP): Thanks so much for your presentation here this morning. This is an issue of serious concern for the NDP, and certainly, a lot of the ridings that we represent have some fantastic Canadian steel producers and workers.

The question I have for you is about China seeking the status of a market economy with the WTO. Currently they're non-market and that impacts the way that we're able to proceed with our countervailing and anti-dumping measures.

What is the Government of Canada's position on the Chinese claim that it should be granted market economy status after December 11 of this year?

Ms. Michèle Govier: We definitely recognize the importance of this issue for the steel sector. We've heard the concerns of Canadian producers about government interventions and the Chinese economy, and the implications this has in terms of their steel production.

Absent a regulatory change, non-market economy treatment for China would continue past December. I'll also point out that Canada's trade remedy system doesn't provide for a standing non-market economy designation. Rather, investigations are initiated on the assumption that market economy conditions prevail, unless there is evidence that's provided by the Canadian industry otherwise. That's more—

Ms. Tracey Ramsey: That's is pretty clear in China. They don't have that, so it would impact the pricing, which then could negatively impact the industry even further. Coming up on this date, then, do we have a position on whether that claim should be granted?

Ms. Michèle Govier: We do not have a position to say yes or no. We're definitely very taken with this issue. We're following it closely internationally, because other countries, a number of WTO members, are also grappling with this question, examining how clear the wording is in the exception protocol of China and the WTO. China takes a very black-and-white approach to this issue, but it's actually quite complex.

Ms. Tracey Ramsey: I'm going to share my time with my colleague.

Mr. Scott Duvall (Hamilton Mountain, NDP): Thank you. Thanks for coming today.

In Hamilton and Sudbury, our steel companies are having a problem with the dumping of steel. On the remedy formula that we have in Canada, unions in Canada are prevented from initiating or participating in anti-dumping and countervailing duty or safeguard complaints.

Many of our trading partners, such as U.S., Australia, and the EU all permit unions to file their remedy complaints and permit unions to participate fully in their domestic trade.

Why is it that Canada's unions are not? The steelworkers presented a written submission to the Department of Finance back in mid-August. I'm just wondering if there was any follow-up on that for this to happen.

• (1130)

Ms. Michèle Govier: We are looking at that. This was an issue that was raised by a couple of unions in the context of consultations that we held recently on our trade remedy system. We've had a follow-up meeting with the unions to discuss it further, to better understand what their interests are, and what they would like to see. We're currently examining what our law allows for, because some of the language is not precise as to participation or not, to see whether we would want to look at doing that.

I understand the interest that unions have and the value that they bring to those kinds of investigations. I would just note, too, that the approaches that have been taken in different countries with respect to union participation are a little bit different. We're examining those different approaches and examining the proposal by the steelworkers to look at what we can do in that area.

Mr. Scott Duvall: When do we feel the committee will have those answers? What's the time frame?

Ms. Michèle Govier: Because there's a potential legislative change required to get that through, there would have to be a policy decision. Then a legislative change would likely be needed in order to bring that into effect.

Budget 2017 might be a vehicle for that, but it is something we're still thinking through.

Mr. Scott Duvall: This is just a comment, but it's hurting our steel industry. Something drastic has to be done because our jobs are being lost. The ripple effect that the steel industry produces hurts everybody. It has to stop. We have to get up to speed as the other countries have. Thank you very much.

Ms. Michèle Govier: Okay.

The Vice-Chair (Mr. Randy Hoback): You still have 30 seconds, Mr. Duvall.

Ms. Tracey Ramsey: Because other countries have really stepped up their provisions, and we haven't, we've become this target for dumping.

What measures are we putting in place to ensure that we can bring ourselves in line? Is there legislation being proposed to do that so that we don't become this side area to dump while other countries enjoy more protection than we do against it?

Ms. Michèle Govier: We've already taken two measures in the previous budget. The government reaffirmed its commitment to having a strong and effective trade remedy system. In the budget implementation act, there were two measures that were put in place. Following the consultations that were held this summer, we're actively looking at implementing further ones in the coming months.

The Vice-Chair (Mr. Randy Hoback): I'm going to have to stop you right there, and move on to our next round of questions. We are going to go to Mr. Peterson. You've got five minutes.

Mr. Kyle Peterson (Newmarket—Aurora, Lib.): Thank you all for being here with us this morning.

I want to ask some questions about the investigation process at the outset. I've spoken to some steel industry stakeholders, as I'm sure most of my colleagues, if not all, probably have in their role as a member of Parliament. We do have some good producers here in Canada. The same theme I'm hearing is that Canadian steel is very competitive. The one issue they have is the dumping by the Chinese. That's the consensus in the industry.

It seems to me that the problem is real. I'm wondering how the investigation process works, and if we're keeping up with methods and technologies that Chinese and other producers are using to circumvent the trade investigation process and make it look like they're not dumping, which may be affecting local pricing on the techniques.

I understand there's software out there now that they can use to make it look like there's no dumping going on. Are we staying ahead of the game in an investigative unit? Are there more tools that could be used? How can we get to where we need to be?

Ms. Michèle Govier: I can walk through a bit about the investigation process.

Essentially, there are two agencies responsible for conducting trade remedy investigations.

Canada Border Services Agency is responsible for initiating a case at the beginning and then looking into whether dumping and subsidizing is taking place, and in what amounts.

The Canadian International Trade Tribunal is responsible for looking at whether that dumping and subsidization is causing injury to the domestic industry.

They have separate functions, and the investigations move in parallel.

Once a complaint has been received by the industry, the CBSA has a certain period of time to determine whether it's properly documented and then, on that basis, whether they want to initiate an investigation.

Once that's initiated, this parallel process goes on where the trade tribunal, first, makes a decision as to whether there's an initial indication that there's injury; then the CBSA makes its decision as to whether there's an initial indication of dumping or subsidizing. Based on those findings, provisional duties can be put in place. Then that moves on to the final stage, where they're doing additional verifications. The CITT holds public hearings and they're just gathering the information to make the final finding. The CBSA will then issue its decision as to what the levels of dumping are. Then the CITT, as a final step, confirms, or not, whether that dumping is causing injury. From that point, final anti-dumping duties or countervailing duties, depending on the issue, would be put in place.

Once measures are in place, they're in place for a five-year period, and that's the time at which, when duties are being collected, some of these issues that you're talking about might be taking place, potentially, where companies might be trying to get around the duties by misrepresenting the nature of what the product is, or where it's coming from. Basically, they will look at what the duties apply to and see if there's a way that they can get out of it. That does happen, from time to time. We don't have a lot of evidence as to the extent to which that's happening in the Canadian market, but there is some anecdotal evidence.

That's one of the areas that we looked at in the consultations as to what tools we might need to have to address that.

We already have, actually, quite good tools within the Special Import Measures Act, within the Customs Act, to deal with fraud and evasion, where there's really just wrong information, incorrect information, being put on entries.

For things where it's more about using loopholes, making small modifications to goods, we're looking to see whether that's an extensive problem that merits having a separate process to be able to address that, as well.

I think your other question was on this software. This is something that's only come to our attention recently. It's the way that dumping margins are calculated. You're basically comparing the prices that they're being sold at in Canada by this exporter with the prices that they're being sold at in their domestic market. If they can play with the prices in the domestic market, it can affect the levels of dumping duties that can be applied.

The CBSA has quite a lot of tools at their disposal to determine whether the pricing in the other market is actually reliable. On that particular case, I don't have an answer as to whether they could address that. We haven't been able to raise that with them yet. But it's been brought to our attention and we're having a look at whether anything additional is needed in that respect.

• (1135)

Mr. Kyle Peterson: Thank you.

I know there have been some changes to some legislation because of budget 2016.

Is there anything else that, legislatively, you think might give you a better...?

Ms. Michèle Govier: Well, this is what I was talking about. The things that we were consulting on would all be legislative changes.

We consulted on eight different proposals. Three of them were related to enforcement-type issues. There were another three that were related to how the margin of dumping is calculated, and some technicalities around that. There were a couple of others that related to the evidentiary standards.

Those consultations concluded on June 29 of this year, and we're actively looking at what additional legislative changes we'll be wanting to make.

Mr. Kyle Peterson: Thank you very much.

The Vice-Chair (Mr. Randy Hoback): You were right on five minutes. Thank you very much.

Mr. Kerry Diotte, welcome to the committee. You come from a steel-producing area yourself.

Mr. Kerry Diotte (Edmonton Griesbach, CPC): I do, yes. It's all very interesting to me. I grew up in Sault Ste. Marie, and I'm sure you all know the history of that—

The Vice-Chair (Mr. Randy Hoback): Pardon me. Sorry. We have to go to Madame Lapointe first, and then I'll come to you.

[Translation]

Ms. Linda Lapointe (Rivière-des-Mille-Îles, Lib.): Thank you, Mr. Chair.

Good morning, and welcome to the witnesses.

With steel, we have extraction, then primary and secondary processing. You said that 60% of our processing is imported and we export 50% thereafter. Where is the biggest problem? Is it at the extraction stage, the primary processing or when it is put on the market?

Ms. Michèle Govier: So you are asking whether the dumping—

Ms. Linda Lapointe: At what point would that become a factor? Would it be more in terms of extraction?

Ms. Michèle Govier: The primary steel producers will be most affected. A number of measures are in place in terms of primary products, but, more and more, dumping is beginning to affect products at secondary processing. People are telling us that it is becoming a problem at that level too.

Ms. Linda Lapointe: Okay.

What are our main uses after primary processing? Clearly, we have the automotive sector, steel construction, and tools. What are our strengths in Canada?

Ms. Michèle Govier: Are you asking where it is used?

Ms. Linda Lapointe: Yes.

Ms. Michèle Govier: It is used in construction, in the automotive industry.

Ms. Linda Lapointe: In steel structures.

Ms. Michèle Govier: Yes.

Ms. Linda Lapointe: In which area are we the best? Is it in the automotive industry or in structural steel?

Mr. Patrick Hum: The Canadian steel market comprises three sectors: manufacturing, energy and infrastructure, or construction.

Ms. Linda Lapointe: Okay. Thank you.

In your opinion, where does dumping happen, how does it happen, and from which countries? Is it because raw materials have run out in Canada or because products have already been processed? Where do those products mostly come from? How and by which route do they get into the country?

Ms. Michèle Govier: They are generally primary products, like flat-rolled steel sheets, steel strips, as we call them. These are primary products that are then transformed into other products. That is what happens most of the time. We have measures in place for those products. They come from a number of countries. We have a lot of measures in place with China, of course, but also with other countries like Japan and Korea. Those are the countries that are most often subject to those measures.

I think that there is a list of our imports. I do not know whether there is a list of imports that are considered dumping. That is a little different.

• (1140)

Ms. Linda Lapointe: So it is often about primary material that is not processed. I have heard that we are sent door handles that are then processed into something else. Is that true?

Ms. Michèle Govier: Processing door handles?

Ms. Linda Lapointe: We are sent already-processed ones and we process them again.

You have not heard of that?

Mr. Patrick Hum: That is really a global value chain issue. More and more, the trend is to manufactured products. We certainly have companies that process and use steel products.

Ms. Linda Lapointe: But I have heard that these handles, which have already been processed overseas, are processed again here. Basically, it is a way of getting around dumping duty. We are being sent steel in a different form. It is not the primary material; they have already been processed and we process them again here. So there are people in Canada trying to cheat the system.

Ms. Michèle Govier: Yes.

I think that goes back a little to your colleague's question, about how people get around customs tariffs. I am not familiar with the example you used, but it does happen that products undergo minimal processing in some countries so that they can come here without customs duties. We recognize the problem. As I said, I do not know whether it happens very often, but we have had examples in the past.

Ms. Linda Lapointe: I have another question.

In the big picture of climate change and reducing greenhouse gases, can we put regulations in place that would ensure that we are using less polluting steel? Is there something that we can do?

[English]

Mr. Patrick Hum: Certainly, 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, PSPC, is looking into those issues as well as infrastructure.

[Translation]

Ms. Linda Lapointe: Do you think that it could be done quite quickly and easily?

[English]

Mr. Patrick Hum: These are difficult questions that I know the two departments are looking at very closely.

[Translation]

Ms. Linda Lapointe: It affects a lot of jobs. Seventeen thousand jobs, actually.

[English]

Mr. Paul Halucha: I'll just add to that. In the case of—

The Vice-Chair (Mr. Randy Hoback): Very quickly, please. She's already over her five minutes.

Mr. Paul Halucha: In the case of procurement, most of the procurement decisions are on infrastructure. The decisions around procurement are made often at the provincial level, so that's where those kinds of decisions would need to get made.

[Translation]

Ms. Linda Lapointe: Thank you very much.

[English]

The Vice-Chair (Mr. Randy Hoback): Let's try this again, Mr. Diotte.

Kerry, you have the floor for five minutes.

Mr. Kerry Diotte: Yes, as I was saying, I grew up in Sault Ste. Marie, so I'm fairly familiar with the industry. My father was a steelworker for 35 years, and I worked there for a summer at Algoma, as it was called then.

Right off the top, the huge elephant in the room is that both major manufacturers are bankrupt. What is going to happen to them? A lot of these arguments might be rather academic. I think the Soo has been bailed out six or seven times now. Overall, is there a future for Canadian steel?

Mr. Paul Halucha: In terms of the two bankruptcy situations, we've been following them very carefully. I think the positive signs in each instance are that there is an investor who is looking at structuring a deal to restructure the business and have a viable business at the other end of the CCAA process. I think that's an extremely positive sign.

We've talked a lot about the dumping issue today, and the other challenge the industry has been facing is the fact that a lot of it was buoyed by high energy prices for a number of years. It's obviously an extremely important market for them, and that market has been impacted. Also, of course, in 2008-09, we all saw what happened to automobile sales, and that was another really important marketplace for steel.

The demand for cars now is actually as strong as it's been in a very long time. We've all seen the very good news that's been happening in Canada around investments from automobile companies. I find myself saying that if the price of oil were to go up a bit more, that would be very positive as well for that industry in allowing some of the exploration that draws very heavily on steel to take root as well. I think there are many positive signs on the horizon for the industry.

I would note as well that while we obviously have two major players that have been facing difficulties around financial restructuring, there's a third large player in Hamilton, in ArcelorMittal. They're all actually quite good mills, and they have very strong assets. I had the opportunity to tour the Stelco assets in Hamilton about two weeks ago. You walk through those lines, and they aren't the steel mills that we see on television, as you well know, or the ones that we grew up with. I also grew up in the Soo, so I remember what the steel mills looked like in the 1980s. These are highly advanced manufacturing processes. A lot of investments have been made. There are a lot of good assets there that will serve the industry very well as there is improvement.

I think ArcelorMittal has done an absolutely tremendous job by diversifying in the marketplace in a way that's allowed them to produce high-quality steel that's very targeted at certain markets. They've managed to do extremely well throughout this period, partly because they are so diversified in the types of products they're producing.

• (1145)

Mr. Kerry Diotte: We all know that electrical costs in Ontario are going through the roof. How much has that hurt the two steel mills, the major players anyway, in Ontario? Do we have any percentages? Is that really crippling them?

Mr. Patrick Hum: Steel mills definitely use electricity. The question is really where the source is and how much they pay. There are some business confidentiality issues around talking about it, so I don't think we can get into too many details, but certainly, the price of electricity is an important factor. The industry has mentioned that a number of times as one of the key issues facing their competitiveness.

Mr. Kerry Diotte: Is there any suggested solution? They're obviously probably having as many challenges as individual householders are, probably more so, just in looking at percentages. How would that allow them to compete with Chinese steel? Those energy costs are obviously much cheaper.

Mr. Patrick Hum: I don't want to overstate the role of electricity prices. Obviously, it's important to them, but it's probably not the key factor that's going to make them more competitive or super-competitive versus other countries. Again, the arrangement they have is also quite unique. Different mills have different arrangements. Some have cogeneration capacity, for instance, which does make a huge difference, does affect their costs, and can add to their competitiveness.

The Vice-Chair (Mr. Randy Hoback): Thank you, Mr. Diotte.

We're going to move on to the Liberal Party.

Ms. Ludwig, you have five minutes.

Ms. Karen Ludwig (New Brunswick Southwest, Lib.): Thank you very much for your presentations.

My riding is New Brunswick Southwest, so I align with Saint John, and certainly Ocean Steel is a significant company in the Saint John community. How has the drop in Canada's energy sector affected the domestic demand for Canadian steel? That's my first question.

Mr. Patrick Hum: I would say quite significantly, as energy represents about a third of the customer base for Canadian steel producers. We have seen a number of plant and mill closures, especially on the pipe-and-tube side. The other public closures are temporary closures and layoffs. It has definitely affected it, both on the margin side and on the production side.

Ms. Karen Ludwig: Okay, thank you.

Mr. Paul Halucha: Just to add to that, as part of my responsibilities in the department, I work on foreign investment as well. We have fairly regular meetings with all the big players in the oil patch and in heavy oil and gas in Alberta in particular, and also in the Atlantic. We had an opportunity to meet with representatives from Suncor and from ExxonMobil yesterday. In all instances, it's rare to see any of the companies talking about big capital expenditures right now, and that has been the case for about the last two or three years. Many projects that would have been very intensive in steel have been deferred as a result of the reduction in the price.

Those two things will be really linked. We won't see a return in significant capital expenditures until people can begin to see the opportunities to get their product to market. Many of the issues around pipelines and access to the markets obviously are critical there as well, but the investments even in a lot of the exploration are very much tied to having a price that can justify that investment.

I think there has definitely been a downstream effect on steel from that. We've certainly heard that for a number of years now.

• (1150)

Ms. Karen Ludwig: Mr. Halucha, in your presentation you mentioned the strong linkages between the industry itself and the universities, colleges, and research institutions. How quickly do the educational programs adapt to the changing market in the steel industry?

Mr. Paul Halucha: I'll turn to Patrick on that one, or perhaps somebody from the industry would be better to speak to that.

I know when we met with Stelco last week, the union talked quite at length about the relationship they have with Mohawk College. They talked about the employee shortages around electrical and mechanical engineering and how important it was to have those positions being serviced.

There's definitely a chicken-and-egg issue in terms of the talent being produced and the attractiveness of the opportunity. If young people are looking around and seeing that the opportunities in that type of industry are not there or they're being impacted the way they are, they're less likely to proceed into those lines of work. You expect that to be a regular market response. So I think many of the producers are developing stronger relations with colleges with a view to establishing a better pipeline. Obviously having the talent in steel, as in any sector of the economy, is absolutely critical. There are some labour jobs in the way we imagine in steel mills from back in the 1950s through to the 1990s, but these are much more sophisticated, high-tech positions now, and their qualifications to participate and be part of the labour force are higher than certainly they were in the past.

Ms. Karen Ludwig: Coming from the educational field prior to being a parliamentarian, certainly I think what you've just said there, Mr. Halucha, is very critical, because so often we look at the forecasting of industry and the forecasting of employment. For a young person looking at the next four years, if their parents were reading the updates in the news they might say a specific industry or area of trade might not be the best. Certainly we look now at where we're at with so many of our industries in Canada, and we do have trade shortages and skill shortages. So I hope the industry continues to work closely—

Mr. Paul Halucha: I would say as well, if you compare the steel industry with many other industries where you've seen disruptions caused by technologies that are displacing workers, there certainly is a degree of robotics and automation that has been brought into the steel process, but it is labour-intensive. There isn't a technology that replaces the need to have highly skilled labourers there. In fact, I think it has actually intensified that need to work with those technologies.

Ms. Karen Ludwig: Okay, thank you very much.

The Vice-Chair (Mr. Randy Hoback): I'm going to get the clerk to hold up his hand when I'm at five minutes, and that way you'll know that I haven't gone over my five minutes. I'm going to take some time because there are some questions that I definitely want to ask here.

Mr. Sukh Dhaliwal: I'll time you.

The Vice-Chair (Mr. Randy Hoback): You can time me if you want.

My first question is to the finance department. When you do your assessment on dumping, how much does carbon pricing come into that assessment?

I think the number we used here was 42 kilograms of carbon dioxide per tonne of steel here in Canada versus 916 kilograms for India. The reality is that it's a huge difference. If that was a factor in the decision of whether to build more steel plants somewhere in the world, they should be built in Canada versus India just because of the global carbon footprint. When you look at that, you must have to say, okay, because it's a dirtier steel, there has to be some consideration of the fact that we have such a clean steel here in Canada and the cost of getting that cleaner steel. How do you bring that into the equation?

Ms. Michèle Govier: I can answer with respect to the trade remedy system, but I think it ends up being a broader question.

With respect to anti-dumping investigations per se, there is no allowance to take those kinds of environmental considerations into play. Part of that is because we're following WTO rules that set out what the basis can be for imposing these types of duties, and we have to be guided by that and by those obligations.

That said, I think it's a bigger picture issue, one that maybe has been discussed a bit more earlier today, about what other channels there might be to address that gap in the environmental footprint of the steel industry in the two countries. It's just that it's difficult to put it into the—

• (1155)

The Vice-Chair (Mr. Randy Hoback): So there is no trade ability to actually say, because it's a cleaner product, it's able to demand some sort of compensation. The marketplace doesn't give it. The marketplace isn't going to offset the cost they had to spend to get it down to 42 kilograms. The marketplace just isn't going to do it.

What is going to do it? Otherwise these guys are going to revolve back into bankruptcy again and again. It's not the fact of dumping. In fact, you could look at it and say, you know, they're not putting steel into Canada at below the cost of production. They could actually be at their cost of production and putting it into Canada and we still can't compete. That basically means that instead of doing the globe a favour and producing steel at 42 kilograms, we're actually going to be buying steel from somebody else at 916 kilograms. Isn't that counterproductive to the goal of reducing our carbon footprint in a global context?

Ms. Michèle Govier: What I would say in that context is that if we are applying measures in our economy that require our steel industry to have fewer GHG emissions, for example, there is the potential of offsetting some of that at the border, so that when things are being imported, that could be—

The Vice-Chair (Mr. Randy Hoback): Then let's go down that road. If you're going to offset it, would that be perceived as a subsidy into our own steel industry?

Would it not be viewed as actually illegal subsidization of that sector if we looked at it and said, okay, you're going to buy power at commercial rates but because you're a steel industry that competes in the world we're actually going to take some of the credits that we get from the carbon tax or the carbon pricing—we'll use that for an example—and we're going to put that back into that steel sector?

Ms. Michèle Govier: Well, if it were being given right back to the steel sector, that would raise certain concerns on that front. However, if it's really just a question of ensuring that the carbon pricing faced by domestic industry is also faced by companies that want to export to Canada, that's not necessarily going back to the steel companies; it's going to be applied at the border as a sort of tariff.

The Vice-Chair (Mr. Randy Hoback): I'm talking about the fact that if we're looking at steel produced in Canada for export and we're saying we're going to subsidize that steel, because we have to get that cost down so they can compete on a global platform, to get their power costs down, the fact is that we're subsidizing that company to get their costs down. So in fact we are subsidizing them domestically so that they can compete internationally. That would be a problem, would it not, in all our trade pacts?

Ms. Michèle Govier: That would be, if it were for the purposes of exporting. I was talking about the import situation as opposed to the export situation. Yes, I think it would raise some concerns to do it that way.

The Vice-Chair (Mr. Randy Hoback): Again, if the global idea is to reduce carbon footprint, we should be exporting as much steel as we can possibly produce. Is that not fair to say?

Ms. Michèle Govier: I think there is an interest in ensuring that the steel that everybody is consuming is the lowest environment footprint possible.

The Vice-Chair (Mr. Randy Hoback): I know we asked to do a study on the carbon tax or carbon pricing here in this committee. Do you not see the dangers of our moving outside of other jurisdictions in policies such as this without having a level playing field? If the goal is definitely to reduce carbon and our carbon footprint in a global nature, do we not have to do it in such a fashion that, if we're doing it, then India and China and everybody else has to do it?

Ms. Michèle Govier: Yes, I recognize the issue that you're raising, for sure. I feel ill prepared to get into a lot of the environmental things.

The Vice-Chair (Mr. Randy Hoback): I should be asking other people this question, and I will be, for sure, but I guess the question from a trade perspective is that Canadian companies are going to compete in the world and we're going to throw a lot more costs at them, so how do they compete? How do we actually protect them? We can't.

I'm sorry, I have to finish. I'm at five minutes, so we'll move on to Ms. Ramsey.

Ms. Tracey Ramsey: We can do more, and strengthening the trade remedies is certainly one of the things that we can do. I think there are compelling arguments to being on board with the steel industry and the 22,000 workers in Canada. You've highlighted a lot of them. We have a lot of opportunities coming in procurement, in infrastructure, that I hope will be fulfilled with Canadian steel for all the reasons that we've talked about here today, the environmental footprint and everything. There is such a strong case, but we need the trade remedies to be improved as they have been in other countries so we don't fall prey to this more than others.

I want to speak specifically about the auto sector because I come from that sector. Certainly in southwestern Ontario it's a huge component of our manufacturing. I wonder if you've done any type of analysis of the Canadian auto sector, understanding that about 900 kilos of steel are in each vehicle, so it's very significant.

How would it be affected if we were able to amend our trade remedies? What would be the impact? If we amend them and get them to a higher anti-dumping duty rate, what would be the impact on the auto sector?

• (1200)

Ms. Michèle Govier: If we're amending things in such a way that anti-dumping margins are higher, and the duty rates are higher, to the extent that the auto companies were already using Canadian steel, that should not have any impact on them because those won't be facing duties. They'll be able to continue those supply relationships. If they were importing steel from countries that are a target of those measures, then their costs could go up if they're not able to find other sources for that steel. I'm not totally sure which measures might affect steel that's used in automotive applications. We have no steel measures against the United States, for example, so a lot of our production chains are really integrated chains with the United States. Those would not be affected unless we're starting to take additional measures against them. There are potential impacts to the extent that they're importing from countries against which we would have measures. We have not heard from the auto sector that they would be concerned with those types of changes.

Ms. Tracey Ramsey: You mentioned, Ms. Govier, the eight different proposals. I'm wondering if you could share those with us here at the trade committee, because we won't be revisiting steel for a bit. You've been before the finance committee, and some of those things will cross over.

The other question that I want to ask you is around these modifications that could take place and the actual investigative process. Can you tell us how our investigative process compares with the other systems that are in place? Do you see opportunities to model on the other systems that exist?

The Vice-Chair (Mr. Randy Hoback): You have 10 seconds.

Ms. Michèle Govier: I'll say that because certain things are spelled out in the WTO rules, certain features are common across systems. Our system is not that different in terms of process to the United States. We do things more quickly. We get measures in place more quickly, which I think is a positive thing, but I would have to get into a lot of detail to be able to answer that for you.

The Vice-Chair (Mr. Randy Hoback): That's okay. We are out of time. We're about 15, 20 seconds over now, so we're going to move on.

Peter, you have the floor for five minutes.

Mr. Peter Fonseca (Mississauga East—Cooksville, Lib.): Thank you, Mr. Halucha, for your presentation, and your entire team for coming and giving us this deep insight into steel.

It was mentioned earlier, when Mr. Dhaliwal was asking some questions, that 60% of our steel is exported. Is that correct?

Ms. Michèle Govier: I think it was 50%.

Mr. Peter Fonseca: Of that, 84% goes to the United States. Does it go direct, as raw steel, or is it going through products? Is it going through cars, etc.? How would you break that percentage up? Of that 84% that's going into the U.S., is it going as a made product or is it going as raw steel?

Mr. Patrick Hum: If it's part of an automotive component, for instance, that would not be included in the statistics. One of the difficulties that we always have with regards to—

Mr. Peter Fonseca: I'm sorry to interrupt, but you're saying that the raw steel would be that 84% of the 50% export going to the U.S., and then there would be other components going into the U.S.? Because 90% of our cars are exported, and the majority are going into the U.S., is that also steel going into the U.S.?

Mr. Patrick Hum: No.

Mr. Peter Fonseca: Why?

Mr. Patrick Hum: As I was mentioning, steel products are quite diverse. We have raw slabs of steel, and we have various forms of coils, hot rolled, cold rolled, and pipes and tubes. Those would be the products that are primarily within the steel export numbers. There are certainly a couple of others, but anything that was transformed into an auto part, machinery, and equipment is separate from that.

Mr. Peter Fonseca: You're not considering all of the steel that's being used to manufacture our cars that are then going into the U.S. as part of that 50% export number?

Mr. Patrick Hum: Absolutely not, no.

Mr. Peter Fonseca: In terms of the steel that crosses the border, how much of our steel do you feel is going into the U.S., then? If you took into account all the cars and everything else that we put steel into, and then that crosses that border, it would be 80% of our steel?

• (1205)

Mr. Paul Halucha: I think the steel industry association, who I'm sure will be appearing before you, will be able to give you some numbers, because they've done indirect numbers. I think their estimate, for example, of the annual is roughly about \$18 billion to \$19 billion a year when they consider indirect.

Mr. Peter Fonseca: What I'm trying to get to with the number is how much we really keep here, domestically—not export through planes, trains, rails, coils, etc. How much is actually used here, domestically? Then, going back to the billions of dollars that we are going to be investing in infrastructure at the federal level, the provincial level, and throughout the municipalities, would that not be able to absorb all the rest of that steel, and how much is that? What percentage of Canadian steel would be there, and how much is actually from imports that are coming in?

I was talking to a company the other day. They are not in steel; they are in the construction industry. They make big sewer pipes, massive pipes the size of this room, and they have a world-class facility here in the greater Toronto area. They said that once Buy America came in... They used to make up 20% of their sales. It's virtually zero today. Do we have, or should we have, a Buy Canada type of initiative? I don't even understand how with Buy America they get around the WTO challenges that we should be putting on them.

Mr. Paul Halucha: I'll let Trade deal with this one in more detail. I've asked the same question, because it does seem, on the face of it, that it would be quite attractive as a policy measure to think about doing something like Buy America, particularly given the fact that during the recession period when the Buy American policy was really ramped up in the United States, there certainly were a lot of stories and anecdotes that we saw or heard about Canadian steel being displaced by American steel that would qualify for federal and state-level subsidies.

The challenge is that the United States, through various trade agreements, has effectively gotten an exemption going quite significantly back into the past, so they've preserved that policy space for themselves. In Canada, we don't have that same ability under the trade agreement obligations that we face. I've said it kind of simply, and I'll let my colleague here—

Mr. Peter Fonseca: We've never posed a WTO challenge to any of this, because they are exempt. Is that what you're saying?

Mr. Paul Halucha: They effectively have a safe harbour provision within the international trade law.

Mr. John Layton (Executive Director, Trade Remedies and North America Trade Division, Department of Foreign Affairs, Trade and Development): I would just add that, as Paul said, they have an exemption that allows them to have Buy American policies, but the Canadian representatives in Washington and our counsel are quite active in advocating for exemptions for Canada or certainly trying to stop the U.S. from expanding Buy America, because there

is always political pressure to expand it. We are quite aware of that threat.

The other thing is that, from a Canadian perspective, we'll look at any proposals that might come up from a trade policy—

The Vice-Chair (Mr. Randy Hoback): I'm sorry, you are well over your time.

Maybe Ms. Lapointe will give you some time in the next round.

We're moving into the next round, and we are going to start with Mr. Van Kesteren, for five minutes.

Mr. Dave Van Kesteren: Thank you, Mr. Chair.

Before going into my time, can I ask the chair a question?

The Vice-Chair (Mr. Randy Hoback): You can ask me a question.

Mr. Dave Van Kesteren: We have the officials until one o'clock. Are we going to continue, because I...?

The Vice-Chair (Mr. Randy Hoback): We've gone into the third round, and we can talk to the other parties about going to a fourth round. If there is a desire from all parties to do that, we'll look at that, but—

Mr. Dave Van Kesteren: I really have a number of questions I want to ask.

Mr. Sukh Dhaliwal: Take more time. Take 10 minutes, then.

Chair, give him 10 minutes.

Mr. Dave Van Kesteren: Okay.

The Vice-Chair (Mr. Randy Hoback): I have to keep some sort of routine here. I'll tell you what, I will be flexible and maybe let you sneak over a minute, just as I will with everybody else, if that's okay.

Let's go to six minutes instead of five.

Mr. Kyle Peterson: Less preamble, more questioning...

Mr. Dave Van Kesteren: There has to be a preamble.

I have to tell you, I get so frustrated when we talk about these things.

I'm going to tell you a story. This is a true story. Back in 2007, I was one of the fortunate ones to go to China, with a group of four. They invited us. It was the first time I had ever gone to China. It was an eye-opener, to say the least.

When we got back, the Chinese embassy contacted me and asked me about the trip. They said they wanted to talk, and I said, "Wonderful. What do you want to talk about?" They said they wanted to talk about the environment. I thought, "Geez, yes, that's a good idea", because when I got there, I really thought they were burning tires. I thought that was how they heated their homes and everything else. You suddenly realize that this is coal and that this place is badly polluted. So I said, "Sure, that's a great idea. Let's talk about it." I started talking about it and they said, "No, no. We want to talk about yours."

They talked about carbon, and how we needed to reduce that—and they are way ahead of us, the carbon footprint and that sort of thing. They did not feel that they should have to participate until at least 2025, and they cited reasons such as that the western economy has polluted. You've probably heard all this stuff. I was shocked. I was just stunned. I couldn't believe what I was hearing.

In my first question, I mentioned that there has never been a period of time in the history of the world when a major power hasn't been a major steel producer. We are talking about all this stuff, but I think that, in essence, if we talk about Chinese influence, their hegemony, how they are traversing the globe....

I looked at a number of trade disputes that have come down the pipe. Most of them involve China, but a lot of them involve countries that I know do not produce these products: Oman, Saudi Arabia, Mexico. They are funnelling this stuff into our economy.

I am asking this question of Foreign Affairs. Do you talk about those things? Do you recognize the fact that we have put ourselves in a position where we can no longer be competitive, especially with a country that hasn't even been granted...non-market economy? How are we going to do that? We talk about all these other things: we need to do this; we need to do that.

The fact remains that they burn dirty coal. Every one of their plants.... I've seen them. They have their own energy producers. They can crank this stuff out, and it doesn't even matter if they have to meet the market.... That's my first question.

The second question is, what would a free trade agreement do with a country like China, in the steel industry? Maybe you can just talk to the committee about those two things.

• (1210)

Mr. John Layton: For your first question about China, I can't really speak to the climate change implications. That's an important issue. Certainly, developing countries say that it should be developed countries that take the burden of addressing emissions. There are multilateral agreements on climate change, and that's something—

Mr. Dave Van Kesteren: I have to stop you for a minute. I can't believe you are not thinking about this. If a country says that, and they're still plowing their fields with oxen, that's one thing, but when they are cranking out all types of products, especially products that demand high-carbon fuels....

I didn't tell you the story about the wind turbines. This was way back when wind turbines were just getting popular. We walked through a plant that was so big that we had to take a bus on the way back. They weren't producing all those for China; I can guarantee you that. They were absolutely state of the art.

I am not suggesting that we shouldn't be reducing our carbon footprint, but is the Foreign Affairs department at least examining the possibility that we are being duped, and as a result we cannot compete in some of these areas?

Mr. John Layton: The issue about trade-intensive industries and the impact of carbon-intensive imports is something that's part of the emissions discussions domestically.

In terms of what Global Affairs Canada is doing, certainly on the steel file, we recognize that China has 400 million tonnes of excess

capacity and that they're also the biggest consumer. They consume half of the world's steel, but growth is slowing there. They're moving to a more service-oriented economy with internal consumption, less export-oriented. Their excess steel is increasing and their exports are increasing. That's something we're trying to address. Minister Freeland addresses it with the Chinese when she meets with them. We're co-operating with our North American partners. The G20 leaders announced the global forum on steel overcapacity. We're trying to use that as a forum to work with countries like China that have massive excess capacity and to communicate ways that we can co-operate in addressing and reducing that capacity and to reduce the trade impact that has on countries like Canada.

To your second question on free trade agreements, we've recently announced exploratory talks with China. That's the occasion for the government to look at issues such as that and determine what our interests are and what the challenges are in having an agreement with a country like China that has sectors that are state controlled. As part of the progressive trade agenda, we will be looking at things like labour and environment issues in the exploratory talks with China.

• (1215)

The Vice-Chair (Mr. Randy Hoback): I'm going to have to stop you there.

Ms. Lapointe, the floor is yours for six minutes.

[Translation]

Ms. Linda Lapointe: Thank you.

I have some other questions about steel. I am very interested in the industry, which is part of our Canadian economy.

We talked about the Buy American Act earlier. I often hear something from Canadian steel processing companies trying to sell their products in the United States. They tell me that, with all government contracts, American companies are able to prevent ours from getting into their market. With private markets, I know that Canadian companies can export to the United States.

Do other countries have tariff or non-tariff barriers that block exports in the same way as the Buy American Act? It happens in the United States, but does it happen elsewhere? If other countries are using measures of that kind to limit access to their markets, what can we do to encourage our Canadian steel industry?

Could you each answer in turn, please?

[English]

Mr. John Layton: I think that we have to continue to advocate that we have an integrated economy with the United States and integrated supply chains and that it's to their detriment economically to have these policies. That's part of our advocate strategy in the United States, to continually educate the United States about the importance of Canadian suppliers.

[Translation]

Ms. Linda Lapointe: Are they listening?

[English]

Mr. John Layton: Sometimes.

It's a challenge, but we keep sending the message.

[Translation]

Ms. Linda Lapointe: It takes time.

Do you want to add anything, Mr. Halucha?

[English]

Mr. Paul Halucha: When I hear you talk about this, what comes into my mind is the automobile sector, where, obviously, we have very integrated supply chains between ourselves and the United States. All those players have the option of buying Canadian steel or American steel, and the reality is that they buy both. They buy specific products, depending on what their market need is and what the best product is. Canadian steel companies compete very well in getting into those supply chains.

I was at a company on Saturday—I won't say which one—touring an assembly plant. At one point, they showed us the supply base, and two of the three major Canadian steel suppliers were there, represented, and selling actively into that.

If members walked away from the meeting today with the view that the Canadian industry was not able to compete, I think that would be a wrong impression to have. The fact is, as I tried to outline in my statement at the beginning, that we do have a very competitive industry. They can compete, and they do compete, especially on a lot of the high-margin products. The mills in China often produce very raw materials. They produce higher stuff as well, but the costs of getting it to Canada.... Transportation costs on heavy products are a big consideration.

I know from a lot of the advanced manufacturing companies we meet with that they want to have local supply. It's the security of knowing that your supply chain is in Hamilton, in the Soo, or close to the 401. You can get the product, and you can get it on time. If there is a problem with it, you can get it fixed. Those are supply chain advantages that are really profound and worth keeping.

For example, with our two companies in bankruptcy, one of the points we kept hearing—and continue to hear—from advanced manufacturing firms in Ontario, Quebec, and elsewhere was how important it is to have competition even within the Canadian marketplace. They really value having those competitive sources in Canada.

I think the market is there. The challenge we've been talking about is the dumping, the oversupply issue. If you look at the price per tonne for steel, we have very competitive products in Canada. They can compete, and they can win.

On the climate change issue, you think about the cost. That's one side of it. I tend to think about the advantages of starting to brand Canadian steel more aggressively as low-carbon. More and more countries think about that—not only end suppliers or end consumers like us, but also intermediate companies that are purchasing. It matters to them that they're buying.... Lots of advanced companies we go to make a point of telling us that they buy Canadian steel and that this matters to them. It matters to them that they have that local base.

There are a lot of strong advantages for Canada going forward. In particular, I think the low-carbon footprint of our steel is one that we

are probably just beginning to maximize as a real competitive advantage in the marketplace. I expect and hope that this will grow as a real differentiator that positions our firms to grow.

• (1220)

[Translation]

Ms. Linda Lapointe: Actually, most of our steel goes to the United States. But in Europe, people are more sensitive to the environment, as we are in Canada. The Americans are less so.

Do you think that the European market could offer possibilities to Canadian steel producers, because it has less impact on the ecological footprint?

Mr. Paul Halucha: Yes, absolutely.

Ms. Linda Lapointe: Is there a way to open that market up? Could we work towards it a little more?

[English]

Mr. Paul Halucha: When you get to the point of hearing from the companies, I think they will be in a better position than I am to talk about their market strategies, in terms of developing those markets in Europe.

The free trade agreement that we just signed last week is very important to strengthening our trade relations with Europe, and I think it will create a lot of opportunities. I know that a key step the Department of Foreign Affairs is taking is to actually market the opportunities in Europe much better to Canadian firms, and I expect and hope that the steel industry will be part of that conversation.

[Translation]

Ms. Linda Lapointe: Thank you very much.

[English]

The Vice-Chair (Mr. Randy Hoback): Perfect. You're at six minutes and 15 seconds.

Ms. Ramsey, you have six minutes and 15 seconds also.

Ms. Tracey Ramsey: Scott.

Mr. Scott Duvall: Thank you.

One of the concerns that I see happening is.... Most of the countries have now reacted to this dumped steel coming in, putting in high tariffs. Canada is still lagging behind, but now the Chinese are using us as a back door and dumping the steel.

If that dumped steel gets into the United States through our borders, are there any concerns that we could be held accountable for any damages?

Ms. Michèle Govier: No.

To answer that question, if it's flowing through Canada and Canadian companies are not doing anything that is aimed at either circumventing or evading duties that are going to the United States, then no. It may be that they're trying to use back channel ways, but whoever is filling in the import documentation would be the one who would be held accountable for that.

I'd also like to address your opening point in terms of other countries putting measures on steel while we're not, because we do have quite a lot of measures already on steel products, with quite robust margins of dumping found, so that offers a very good level of protection. If you look at some of the key products, you see that on steel plate, concrete reinforcing bar, and a lot of tubular products that are used in pipelines and whatnot, we have quite a number of findings in place that are offering good protection in our Canadian market against dumped and subsidized products.

There is a perception, perhaps, that we don't have any of these measures in place or that we're lagging behind in that sense, but I want to make sure it's clear that our industry is very active in bringing complaints forward and very successful in terms of getting measures in place.

Mr. Scott Duvall: I have one other quick question. When it comes to our ports, is there any fraud happening, such as changing of paperwork or tags, or things we should be concerned about, and who is policing that?

Ms. Michèle Govier: The Canada Border Services Agency is responsible for the enforcement of trade remedies measures, so once things come in, if they're subject to anti-dumping and countervailing duties, they are the ones assessing the duties on that. They're determining whether the products meet the definition that's in the finding to ensure the duties need to be applied, and they're the ones examining whether there's false information, perhaps on the entries and whatnot.

As I said, my understanding, and you may want to discuss this further with the steel industry as well, is that we've heard anecdotal evidence that things are happening or at least that there are parties in Asian countries that might want to facilitate the import of products without paying duties. In terms of having found a very prevalent issue coming into the Canadian market, I don't think we have evidence of that.

That said, we understand that it's a concern of the industry and enforcement is very important. That's one of the reasons why we're looking at it. We looked at that in our consultations to help improve the mechanisms we have to deal with it.

Mr. Scott Duvall: Tracey.

• (1225)

Ms. Tracey Ramsey: Has the CBSA found any of these cases? Do they exist?

Ms. Michèle Govier: You'd have to talk to them.

Ms. Tracey Ramsey: Okay.

Ms. Michèle Govier: Unfortunately, I don't have that information with me.

Ms. Tracey Ramsey: I have another question. I understand that we're doing this to the best of our ability without further legislation, but we are not in line with some of our largest competitors, such as Australia, the EU, and the U.S. Even the Canadian Chamber of Commerce, through the Hamilton Chamber of Commerce, the Windsor-Essex Chamber of Commerce, and the Sault Ste. Marie Chamber of Commerce, has put forward recommendations to bring

us in line with them so we can actually ensure that we have a strong steel sector.

One of the complaints that comes from a facility in my riding—Atlas Tube, with Barry Zekelman—is that by the time they bring the case forward and start the process, the damage has been done. That's the issue. What could we possibly do to address things in a more timely way so that we don't continue to bleed out that damage while we're waiting for some type of ruling?

Ms. Michèle Govier: There are limits to what we can do in terms of going retroactive or whatnot. That's really governed by the rules that are set out in the WTO. These are measures that can result in very high levels of duties, and there are appropriate rules around that to make sure there's good evidence, that they're merited and warranted.

I'll mention again that our system is among the most responsive in the world in terms of getting duties in place quickly. We only have one opportunity to potentially extend an investigation, but otherwise it's set out in the legislation that you're going to have provisional duties if it applies within 90 days, and then final duties at the end of I think 210 days after the initiation. It's not immediate, but it is certainly very quick, and quicker than virtually all other jurisdictions.

There are rules that say if after initiation there is a situation of massive importation—if you see that there's a real surge after a case has been initiated—there is the potential to apply duties going back to that date of initiation. It's very rarely used amongst different countries because it's a fairly high standard. Other than that, it's really that 90-day period when the provisional duties begin to apply

Ms. Tracey Ramsey: Is there any way to decrease that? Is that one of the recommendations you have? Is decreasing this part of the trade remedy that is being sought?

Ms. Michèle Govier: No, and that's one of the elements that's clearly set out in the WTO agreement as to what the conditions are for applying it.

Ms. Tracey Ramsey: I want to go back to the non-market economy status that China has and this date of December 11 that is looming. I'm wondering what the impact of granting them market economy status would be on our investigative process here.

Ms. Michèle Govier: Essentially, in terms of non-market economy status, when you find that non-market economy conditions exist, it means that instead of comparing the prices of the exports into Canada with those in China, you're using third-country information or some kind of surrogate information—because the thought is that the prices within China are not reliable—so that you're able to get credible and good margins of dumping on those investigations. Not having the ability to do that and being forced to rely on the prices within China, where there are serious concerns that there are a lot of distortions, would reduce the levels of the anti-dumping duties.

I've seen different estimates as to what those might be, including in the range of about 30 percentage points, so where we might have had duties of 50%, they would be going down to 20%. Those are estimates. It really depends on a case-by-case basis as to what the situation is on the ground. Yes, we're very mindful that the impacts of this could be significant.

Ms. Tracey Ramsey: Yes, because—

The Acting Chair (Mr. Kyle Peterson): Thank you. That's your time. I'm sorry, Ms. Ramsey, but I appreciate the line of questioning.

We're going to move back to Madam Ludwig now for six minutes.

Ms. Karen Ludwig: How often do you meet with your global partners around the issue of trade and what are they telling you about their situation with their domestic markets?

Mr. John Layton: We meet frequently with our North American partners in Mexico and the United States, with government officials and with their industries as well. Twice a year, we have the North American steel trade committee that meets to discuss issues of common interest. Usually, those involve issues about overcapacities and concerns with unfairly priced imports from other countries.

We also co-operate with our NAFTA partners in the OECD steel committee, which meets twice a year as well to discuss issues of interest to the global community. It's a unique forum to discuss steel issues in a multilateral context. As I mentioned before, we also have a G20 forum on steel overcapacity.

There's also co-operation on the trade remedies front, in trade remedies and enforcement. Maybe Michèle could talk to that.

• (1230)

Ms. Michèle Govier: In terms of the Department of Finance, there are WTO committees held twice a year pertaining to anti-dumping and subsidies issues. We participate in those and have a lot of interactions with other international players and like-minded and not-so-like-minded countries to discuss some of these issues.

I'll mention as well that, on the enforcement side, CBSA has quite a lot of interaction with its NAFTA partners as well. Very recently, in the North American leaders' summit, there was an announcement that there would be further co-operation efforts on the enforcement of steel anti-dumping measures in particular. The first meeting pursuant to that occurred in October. They report out to that North American steel trade committee.

In that sense, there's quite a lot of co-operation, formal and informal, with other countries, because there are shared challenges on a lot of these issues, and getting a better understanding of how other countries are dealing with them, as well as best practices and whatnot, is a very useful exercise.

Ms. Karen Ludwig: Thank you. There are quite a few meetings.

Mr. Patrick Hum: I should point out that at the last high-level meeting of the Global Forum on excess steel capacity, which was held in April, the associate deputy minister for Innovation, Science and Economic Development, Kelly Gillis, represented Canada. That's where they had deputy ministers and ministers from various countries talking about the global excess steel capacity issue.

Ms. Karen Ludwig: Thank you.

I have one last question and then I'll be splitting my time.

Ms. Govier, you mentioned that the Canadian system is the “most responsive” for setting out duties. How likely is it that the other countries you're having conversations with may take similar actions in dealing with the challenges?

Ms. Michèle Govier: In terms of the responsiveness, I was speaking specifically about the timelines. In terms of getting measures in place, I'm not aware that other countries are looking to expedite their processes. I know that Australia recently already did that as an exercise, but I think their time frames extend out a bit further than ours in many cases.

There are other measures being taken by different countries to respond to the challenges. I don't know if you're interested in mainly trade remedy types of changes or if it was a broader question.

Ms. Karen Ludwig: I may have to get back to you because I'm splitting my time. Thank you.

Peter.

Mr. Peter Fonseca: Thank you.

Taking into account the fact that some of our largest producers here are foreign-owned companies—Essar and U.S. Steel, with U.S. Steel also having plants in the United States—how do they play the two markets in terms of their production? Do they drop production here when, for whatever reason, they feel that they can decide to do it in the U.S. instead of here?

The other question is, how has the dollar drop—down to 74¢ today, I guess—affected the industry?

Mr. Patrick Hum: Certainly, we've had discussions with companies about how they operate. It varies from company to company. Obviously, certain restrictions such as Buy America do have an impact on the way products can flow. If, for instance, they're supplying a procurement contract in the United States, most likely it has to be sourced from the U.S. plant.

On the other side of things, for instance, on automotive supply chains, it's different. It depends on the product that they're looking for, the type of steel they're looking for, so it does vary.

With regard to the dollar, the dollar has benefited the Canadian producers. Again, steel is a global product. It is a commodity. It's also traded in U.S. dollars significantly, so the benefit has trickled down to manufacturers as well.

Mr. Peter Fonseca: Just getting back to U.S. Steel, it's really not in our control. U.S. Steel can decide if they want to cut production here and increase production in the United States, and sell through their other plant, with U.S. Steel.

I want to ask another question. Within the industry, how important is proximity to your supply chain? China is so far away, and I don't know what their costs are for transportation, etc. How does that impact the price and our competitiveness?

•(1235)

Mr. Patrick Hum: Transportation costs are obviously a very important part of the manufacturing supply chain. Being located near your customers is very important. I think the location, for instance, of some of the Ontario steel mills makes them well-placed for supplying automotive components. It does certainly factor in. Commodity-based products also have a bit of a different dynamic. That is a little more tricky to understand, and how products come in from various countries.

The Vice-Chair (Mr. Randy Hoback): I'm afraid we're out of time. Witnesses, I'm going to dismiss you now, and thank you very much.

Colleagues, before you go, Bill C-31, Canada-Ukraine free trade agreement, was introduced in the House today. I know when we did our planning, we never considered that as a priority or whether we were going to have to look at it before Christmas or not. When we come back after the break, maybe I'll ask the chair to set aside five minutes and just see if that's going to impact our timing. Maybe think a bit about whether you want witnesses or not for that as it comes forward. I am just giving you a heads-up and then we'll deal with that in the next meeting.

The meeting is adjourned.

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