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## **Standing Committee on International Trade**

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**EVIDENCE**

**Thursday, March 23, 2017**

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**Chair**

**The Honourable Mark Eyking**



## Standing Committee on International Trade

Thursday, March 23, 2017

•(1615)

[English]

**The Chair (Hon. Mark Eyking (Sydney—Victoria, Lib.)):**  
Welcome, witnesses.

Members, some control here; we're not in the House right now. We're trying to get everybody simmered down. They're excited after leaving the House, with all those votes. Sorry for being late. That's the way things roll around here.

This is the final meeting of our study on the steel industry, the impacts internationally and the state of our steel industry here in Canada.

With us at the table today are three witnesses: Tenaris, ADF Group, and ArcelorMittal Dofasco. Also, we have Carolina Gallo, from ABB, by video conference. Welcome, folks.

We'll try to have a good dialogue. We have about an hour. We'll open it up. If you can keep your views to within five minutes, we'd appreciate it. Then we'll have dialogue with the MPs.

I think we'll go right to Ms. Gallo, from ABB, by video conference.

**Ms. Carolina Gallo (Vice-President, Public Affairs, ABB Canada):** Good afternoon. I want to thank you for your invitation to present today on behalf of my company, ABB Canada, on your study of the steel industry's competitive impact in competing globally.

I'm the VP of public affairs and corporate communications for ABB. The focus of my presentation today is about people, technology, and the future of the innovation ecosystem in Canada.

I'm a Canadian born of immigrants who fled war and poverty in post-war Europe. Most of my family worked in Canadian-owned factories in Quebec and Ontario in industrial manufacturing and cement. I'm the first of my extended family to graduate from university.

For the benefit of committee members, I will note that ABB is a global company headquartered in Zurich. It was born of the merger of a Swedish company, ASEA, and a Swiss company, Brown Boveri, that had a legacy footprint in Canada through electric systems and automation for pulp and paper mills. In Canada, we are 4,000 Canadians who are power and automation experts. We're in over 50 locations from coast to coast.

We are Canada's leading technology supplier for electrification, whether it's high-voltage direct current systems for companies such

as Hydro-Québec or the Maritime link project. We also supply equipment such as the largest mining hoist in the world for PotashCorp in Saskatchewan. We provide electrification systems for the power supply for pipelines for oil and gas.

We are also into robotics and automation for manufacturing, which is part of the scope of my presentation today. It's this automation story that I think is key to the reshoring of jobs for the Canadian economy.

We have customers in the steel industry in Canada, the U.S., and globally. I will not speak to steel manufacturing. Our customers—and some of them are in the room today—are the experts in their products and their markets. However, what I would like to bring to the table today is the message that there's an information technology revolution happening, and it's happening in a context of sustainability, energy concerns, COP22, and a disruption to the power supply model of utilities and for industries with respect to integrating clean renewable energy.

We also have another revolution going on. It's called “Industry 4.0”. It's where the world of people and machines meets the Internet. According to the McKinsey Global Institute, the fourth industrial revolution's IoT represents an \$11.1-trillion business opportunity in the next eight years. That's more than 10% of global GDP.

The first point in my presentation is about people. Our workforce challenge at ABB—and that of our customers—is to face the pressures of finding the right people with the right technical skills and the ability to communicate effectively and to engage for productivity, with collaboration.

The future of this workforce is millennials. This generation is the most connected generation in history and will network right out of their workplace if their needs are not met. They are computer and digital native experts and they're connected by email, WhatsApp, Facebook, LinkedIn, and Twitter—you name it.

This can be good news for the steel industry and other industrials who have already incorporated software and automation into processes and operations; however, the risk opportunity lies in thinking that this digital revolution is just a fad, or that some industries are less prone to being completely digitized or that it's less necessary. Today, things are so volatile and unpredictable that business cycles have been compressed to where you need to think about what your company looks like not just in two-, three-, or four-year cycles: you need to know where you're going to be in six months.

Digital isn't merely "digital". It's really a new way of thinking and a new way of doing. I'm speaking to you from a \$90-million campus that we're about to inaugurate officially. It's a completely open concept. If you could see it on either side of me, you would see that it's completely glass.

We're a completely open concept. I'm vice-president, and my boss doesn't have a desk, and I don't have a desk. We're all hotelling. This high-tech concept is a workplace 2020 notion, where collaboration and transparency are the order of the day, from the CEO right down to the IT specialist who's sitting with me.

Thank you to Robert Baronian, who is sitting with me.

● (1620)

We're in a perfectly flat, collaborative space because real time, same time is part of what makes a company efficient.

**The Chair:** Excuse me, do you want to wrap up? Your time is up.

**Ms. Carolina Gallo:** The wrap-up is that 3-D printing and digital are the opportunities going forward, and the digital quotient of companies shows that 90% of top performers in the Fortune 500 are those that have completely integrated digital into their operations.

Thank you very much.

**The Chair:** Thank you.

We're going to move over to Dofasco, and Mr. Donnelly.

**Mr. Sean Donnelly (President and Chief Executive Officer, ArcelorMittal Dofasco):** Thank you.

Good afternoon, honourable members.

I'm Sean Donnelly, president and CEO of ArcelorMittal Dofasco, Canada's largest flat-rolled steel producer. I'm also chair of the Canadian Steel Producers Association, which testified here earlier in March; a member of the board of directors of the American Iron and Steel Institute; as well as a member of the Canadian Automotive Partnership Council.

Let me start by saying that ArcelorMittal Dofasco welcomes the Government of Canada's budget 2017 commitment to improve its ability to defend Canadian manufacturers against dumped and subsidized imports by implementing measures that effectively modernize the Canadian trade remedy system. These legislative and regulatory amendments will improve the enforcement of trade remedies, address the circumvention of duties, and better account for market and price distortions. These measures received widespread support from manufacturers and business associations across Canada.

I have been monitoring the committee's proceedings over the past weeks, and appreciate the time and effort of everyone involved. I'm pleased to also add some context to this study.

To answer the question being asked about whether the Canadian steel industry can compete internationally, for ArcelorMittal Dofasco the answer is a resounding yes. In fact, Dofasco is one of the top-performing businesses within all of ArcelorMittal, the largest steel company in the world, with a presence in 60 countries. In Canada, ArcelorMittal has more than 9,500 employees across seven business units that include mining as well as steelmaking and finishing for flat carbon, long products, and tailored blank steel.

Steel is a capital- and technology-intensive industry. In fact, at ArcelorMittal Dofasco we often say that we are a technology company that makes steel. We rely on processes and product innovation to be successful in the North American and global steel industry.

Having said that, we also know that people are our competitive advantage. You likely know our long-standing motto: "Our Product is Steel. Our Strength is People." In Hamilton, we continue to live by this belief. We have 5,000 employees and are responsible for another 20,000 indirect jobs.

We continue to experience a wave of retirements. We are in the marketplace hiring, and have been for the past five years. Nearly 30% of our workforce has five years or less experience with the company; and we continue to bring on approximately 300 new employees per year, over the next number of years. These new employees soon realize that learning and development is a core commitment at ArcelorMittal Dofasco, whether on the job, in the classroom, or even outside the workplace. In fact, ArcelorMittal Dofasco operates the only North American campus of our global ArcelorMittal University.

In terms of capital expenditure, between 2013 and 2015, Dofasco invested more than \$1.3 billion in the Hamilton facilities. Between 2016 and 2018, we will invest another \$1.5 billion. These investments are in both product and processes, including new finishing lines as well as restoration work. They demonstrate our commitment to innovation, which is driven through collaboration with our global colleagues, our global R and D facilities in Hamilton, local clusters in the city of Hamilton, and the contributions and the strength of our people.

Again, the government's budget 2017 announced yesterday will create a national advanced manufacturing economic strategy table with a commitment to increase value-added exports, as well as the establishment of innovation super clusters, including advanced manufacturing, to accelerate economic growth. ArcelorMittal Dofasco looks forward to partnering with the government on both these initiatives.

Again, as a unit of a large, multinational corporation, we compete for capital within our own facilities. While our focus on innovation through continuous improvement differentiates us and keeps us at the forefront of our industry, we also require provincial and federal regulatory environments that maintain cost competitiveness, as well as policy that ensures a fair market with a fair trade, all factors that play into decisions for foreign direct investment.

While the Canadian budget has now been released, we are awaiting budget measures from the new U.S. administration, which have been suggested to have a potential negative effect on trade flows of North American supply chains, including steel.

Members have heard from previous testimony about the structure of the North American steel market. Let me reiterate that the Canadian steel industry is significantly intertwined with that of our U.S. customers and suppliers, and there is a balance of trade. In 2016, more than 10 million metric tons of steel, worth about \$12 billion, was traded between our two countries. Canada and the U.S. trade fairly in steel, with no dumping or subsidy orders against each other.

Looking at ArcelorMittal Dofasco specifically, more than 25% of our shipments are to the U.S., with more than a half of those shipments to the U.S. auto industry. In addition, we are Canada's only tin plate producer. As major food can manufacturers have moved their operations from Canada to the U.S., most of our tin plate production is exported there.

Policy changes in the U.S. will impact Canadian manufacturers. Potential border adjustment taxes, expanded U.S. Buy America policies—particularly for private projects—as well as expansion of U.S. trade rules that may result in diversion of offshore steel into Canada are all of great concern in that they would disrupt efficient working supply chains.

• (1625)

In the renegotiation of NAFTA, Canada must be vigilant to ensure that our economy is not disadvantaged as a result of the renegotiation. We believe there is an opportunity for a North American approach that would increase the North American manufacturing base and the market share of supply chains, including steel.

**The Chair:** Please wrap up, Mr. Donnelly.

**Mr. Sean Donnelly:** In summary, we are a global leader in process and product innovation and will remain focused on continuous improvement of those things that are within our control. We will also continue to advocate for trade and economic policies that create an environment for all manufacturers to effectively compete. Together, these will ensure foreign direct investment for our business and for Canada.

We look forward to a bright future for ArcelorMittal Dofasco as an innovative, technologically advanced manufacturer in Canada.

Thank you for your time.

**The Chair:** Thank you, sir.

We're going to move over to ADF, with Mr. Ducharme.

[*Translation*]

**Mr. Éric Ducharme (Vice-President, Sales, ADF Group Inc.):**

Hello, ladies and gentlemen. My name is Éric Ducharme and I am the vice-president of sales for the ADF Group Inc.

The ADF Group is a key player in the manufacturing of steel structures in Canada. The company's products and services are used primarily in non-residential construction, which means office towers, recreational complexes, airport facilities, industrial complexes, and transportation infrastructure.

The company has a 630,000-square foot plant in Terrebonne, Quebec, and more than 350 employees. The ADF Group is known for its expertise in engineering and project management, and for its major manufacturing capacity.

It must be said that, since the 2008 recession, our industry has witnessed an unprecedented increase in the major contracts awarded to companies located in China and Korea, and also in European countries such as England and Spain. This might seem normal in view of the globalization of markets. Yet the manufacturing of large steel parts to be used in our infrastructure and industrial complexes is threatened by these newcomers, primarily from countries that can produce parts for metal structures at 40% to 50% below market prices.

Despite the investment of over \$75 million over the past 15 years in cost-cutting technologies, including integrated operations management systems, excellent design software, digital equipment, and staff training, the ADF Group has suffered inexplicable, even undue, pressure in the past ten years or so, owing to the sales price of structures delivered to Canada and manufactured by foreign competitors. It is a level of competition that, in some cases, we cannot explain.

For example, for the new Champlain bridge project currently under construction, some 900,000 hours of work related to the steel structure were awarded to Spanish companies. Since the average wages in the industry in Europe are approximately 19.5 euros per hour and the environmental and health and safety standards are similar to those in Canada, the price difference cannot be explained by differences in wages, or related to environmental or health and safety factors.

What is the explanation? What competitive advantage do these foreign companies have over Canadian companies? Do they get government subsidies or tax credits? Should we do like the United States and develop a "Buy Canadian Act" for our public projects?

Recently, a clause requiring purchases to be made in the United States or Canada was added to the specifications for the construction of the Gordie Howe bridge, which will link the cities of Windsor and Detroit. This step will clearly provide for healthy competition in North America and have positive effects on our respective economies.

Finally, beware of major clients that publicly explain their decision to buy from a foreign company by saying that Canada does not have the capacity to meet their project requirements. A number of projects in western Canada, among others, have been awarded to Chinese and Korean manufacturers. I personally took part in those negotiations with those very clients and can tell you that they were talking about price, not capacity. Moreover, any medium-sized or major Canadian manufacturer can tell you that we have our factories' excess capacity forces us to export our products.

In closing, I would say that it is imperative for our industry to be protected from a new group of so-called discount international companies, and for greater consideration be given to the economic benefits that a locally manufactured major project can have for Canada, including the expertise of our engineering firms, wage benefits, subcontracting, and tax revenues.

We recommend that a study be launched to shed light on the gaps between our sales prices and those of the international companies mentioned in relation to the bridge and major structure projects.

We also believe that the current measures taken by the Canadian government are insufficient to protect our industry. We therefore recommend that these measures be strengthened.

Thank you for your attention.

• (1630)

[English]

**The Chair:** Thank you, sir.

We're going to move over to Tenaris and Mr. McHattie.

**Mr. David McHattie (Vice-President, Institutional Relations Canada, Tenaris):** Thank you for the opportunity to contribute to this study. It's an important time for the industry, and it's an important time for our operations in Canada. We appreciate the multi-party support and the multi-party aspect of this, in particular on trade remedy effectiveness. It was included in the budget released yesterday and had been in the previous two budgets, with multi-party support.

I'm David McHattie. I'm responsible for institutional relations for Tenaris in Canada. I've worked for the company for 20 years, and I was one of the first three employees hired. I've been responsible for our strategic planning—the commercial, industrial, and economic planning. Now I'm responsible for institutional relations.

In addition to my paid work, I'm vice-chair of the Canadian Manufacturers & Exporters, and I'm on the board of the Petroleum Services Association of Canada. I have contributed to a couple of Chamber of Commerce studies. I'm able to speak about advanced manufacturing, about manufacturing goods for Canada's energy industry in general, and about Tenaris specifically.

To give you some context, I'll share a little bit about the company, a little about challenges and opportunities, and wrap up with what I think is a fantastic opportunity for the government to work together with industry.

Tenaris is one of the world's leading steel companies, particularly as measured by its market capitalization. Not only is it a leading steel company, but it's also one of the world's leading oil field services companies. We're a world leader in advanced manufacturing. We manufacture steel pipes for use in many applications, but primarily in energy development and oil and gas development.

We operate wherever oil and gas is located, including Canada, which happens to be the fourth-largest market in the world for these products. These include steel casing, tubing, threaded connections, and accessories used in oil and gas development and extraction; the line pipe that transports from the well to the facilities; and the pipes inside the facilities, enabling the further value added of the oil and gas.

We have three manufacturing facilities in Canada and nine service facilities spread out in the field. Our three manufacturing facilities are in Sault Ste. Marie, Calgary, and Nisku, which is on the edge of Edmonton.

We are an advanced manufacturer of high value-added products. That's why we're interested. We are not making steel in Canada necessarily; we are buying from Canadian steelmakers. They are our partners in these businesses. We work together in designing the steels that the energy industry demands. We continually invest in our manufacturing processes. Before the most recent crisis that hit the energy sector, we were investing about \$100 million every three to four years in our manufacturing facilities.

Among the several reasons we are here in Canada are our valued oil and gas clients. This is an important market for developing our oil and gas. It's a global player. We are here to manufacture in Canada and to add value, in Canada, to this industry. This is an industry that has the scale, the differentiation, and the competitiveness to thrive sustainably.

Can Tenaris compete internationally from Canada? The answer is yes. This is a market that is large enough. It's a market, though, where prices need to be determined based on fair competition, and effective trade remedy is what enables fair competition.

Trade policy is one of the most important drivers in our investment decisions. It's a strategic industry. I'll highlight a few of the challenges today as they relate to trade policy. There are three topics: overcapacity, its drivers and impacts; the importance of trade remedy rules; and how this relates to competitiveness for capital investment.

We've all heard about the issue of overcapacity. Our Prime Minister has spoken positively, at major international forums, about Canada's interest in resolving this global problem.

I'd like to drill down a little bit. We know there are 700 million metric tonnes of overcapacity of steel. This is 45 times the size of the Canadian market.

•(1635)

What we need to think about is downstream, and that's just the start of the problem in steelmaking. There is overcapacity in things made from steel. I appreciate the comments from my colleague that this is a global problem and it's something I'm very pleased you are interested in, and I think we can work together to resolve it.

In terms of the products we make—

**The Chair:** Sir, can you wrap right up there?

**Mr. David McHattie:** Yes.

The biggest challenge we have today is with unfair trade. There have been 600 trade cases around the world. Many of these are in steel and steel products. We have had challenges. We appreciate that the trade remedy is important to resolve these issues. With regard to each of the three actions taken yesterday in the budget—on particular market situations, on a scope ruling, and on circumvention—we have had negative impacts by not having these tools. We expect this is going to enable the Canadian industry for steel and steel products to be more competitive, and we appreciate those and appreciate all of your support.

My final point is on the opportunities for Canada to be competitive. We announced today that we have restarted our Calgary facility in part—and not an unimportant part—based on the actions taken on trade remedy and on the collegial way of approaching this global problem and how Canada will continue to compete. This means we're bringing back about 150 jobs to Calgary in addition to the roughly 350 jobs we added to Sault Ste. Marie in the last six months because of actions taken on trade remedy. We want to bring this to concrete jobs in our communities, jobs in your communities, and this complete steel supply chain that goes from the iron ore to the steelmaking to the steel products and their use. This makes us as Canadians competitive in all of our industry. It's an important ingredient, and we appreciate your attention and action.

•(1640)

**The Chair:** I thank all of the presenters. As a member of Parliament from Sydney, Nova Scotia, I will just say that we made steel for 100 years and we realize how challenging the industry is.

Before we open up dialogue with the MPs, I'd like to welcome some visiting MPs. We have the two boys from Hamilton, Mr. Duvall and Mr. Bratina.

Welcome.

We also have the member of Parliament for Sault Ste. Marie, Mr. Sheehan.

It's good to see you here.

We're going to start our dialogue with the MPs. They have five minutes. We're going to start with the Conservatives.

Mr. Hoback, you have the floor.

**Mr. Randy Hoback (Prince Albert, CPC):** Thank you, Chair.

Thank you, witnesses, for having the patience to wait us out as we went through votes.

So many questions and not enough time. I have five minutes, but I'd love to spend probably 45 minutes talking about 3-D printing and that whole new technology and what it's going to do to logistics and how it's going to change our whole society in the next 10 or 15 years. But again, I have just five minutes.

I'm going to talk about maybe a combination of our carbon footprint and the carbon taxes we're facing here in Canada, which you're competing with outside of Canada. I want to talk a little bit about that. I also want to talk about our competitiveness, the fact that when we look at our competitiveness—and the CME has used this example—we're losing out because we're no longer competitive. We don't have the competitive advantage in the manufacturing sector here in Canada compared to other sectors around the world.

The government just invested \$245 billion in the China infrastructure and development bank, with a \$1-billion commitment moving forward. Will you get any of that business? Will any of that business flow your way as that money is being spent overseas in China?

**Mr. Sean Donnelly:** I'll take the first question on the carbon taxing.

**Mr. Randy Hoback:** I'll actually come back to that a little bit more, but maybe go to the second question first and then I'll come back to the carbon tax.

**Mr. David McHattie:** I can answer that. Most of Canada's steel industry is oriented around goods that are used in Canada, and I would say that Canada's steel industry is unlikely to benefit significantly from investments made overseas. Today there are almost no duties on products that come into Canada. At best, this could be a risk to us. However, I think if we take a holistic view to our supply decisions, including choosing to buy things with the lowest GHG footprints, and we make investments in carbon and awareness of our customers along the supply chain, this might end up being a net profit for us.

**Mr. Randy Hoback:** This is where I get kind of frustrated, because I know the requirements you have to meet here in Canada. I know that in previous committee meetings we've talked about measuring the actual number of kilograms of carbon emitted per tonne of steel produced and then we compare that to the same scenario in India and China. If we're looking at the global carbon footprint, we should be cranking our mills up left, right, and centre if that's the factor, if what we're worried about is the environment and our carbon footprint. Would you not agree with that?

**Mr. David McHattie:** I would agree completely. There's an opportunity, though, for us to share the information so that customers know, when they make a decision to purchase something from China, that they're buying something that has produced three times the amount of GHG emissions and that if they choose to buy from a supply chain in Canada they're making the right, almost ethical decision.

**Mr. Randy Hoback:** It comes back to the competitiveness factor, then. You're paying more to get to the efficiency level to get such reductions. They aren't, yet they're bringing the steel in here.

Help me to understand this. They're bringing the steel in here with the higher greenhouse gas footprint, and you're competing against that, plus we're throwing all these other regulations at you that will not let you compete, that just make it impossible.

What should we do at the border, then, to accommodate the fact that this stuff is coming in basically with no acknowledgement of the environment among the cost factors?

• (1645)

**Mr. Sean Donnelly:** I think that's the key question. It's a question of competitiveness and treatment at the border. The EU, as you know, is considering carbon taxes. Our company is out talking about border carbon taxes. I don't know that we have to go to that extent, but there has to be a recognition of where carbon is being generated.

You're right; it has been part of the testimony to this committee that Chinese steel, for example, generates three times the CO2 per tonne that Canadian steel does. That includes not just the production of the steel; it's the transport of coal from Australia to China, all of that.

**Mr. Randy Hoback:** Exactly. It's the whole chain right through.

**Mr. Sean Donnelly:** It's also the transportation of steel from China into Canada, absolutely.

**Mr. Randy Hoback:** It's the actual, true picture of what that piece of steel went through by way of carbon footprint.

I become frustrated when I talk with government trade officials. First of all, government officials say we can absorb it all. I say, wait a minute, that's asking you guys to absorb a lot. When I talk to trade officials and ask whether they can put an environmental tax on at the border to account for this, they say they don't think they can, because that would be a non-tariff trade barrier.

How, then, do we compete?

**Mr. David McHattie:** I can answer that question.

In theory you can, but what you need to do is treat your domestic products the same as you treat imports. If we begin measuring what the GHG footprint is of the product we make in Canada, we can begin to ask at the border. Using the same methodology—and the World Steel Association has a methodology that could be helpful—you can begin to measure—

**Mr. Randy Hoback:** But then we'd have to use regulations instead of —

**The Chair:** I'm sorry, Mr. Hoback, to cut you off, but your time is up. Maybe we can get one of your colleagues to finish off your questioning.

We're going to move over to the Liberals now.

Mr. Bratina, you have the floor. Go ahead.

**Mr. Bob Bratina (Hamilton East—Stoney Creek, Lib.):** For full disclosure, I started in Dofasco in 1964. I think at least seven members of my family have worked there through the years, so I have a particular affinity for the company.

I'll put this to Sean Donnelly first of all. Can you explain circumvention in understandable terms? What is circumvention? How does it work against the steel industry?

**Mr. Sean Donnelly:** Thank you, Bob. I can give you some real-life examples.

Let's take the U.S. by way of example. If they have some import duties on Chinese steel coming in and somehow the steel finds its way through Vietnam, for example—these are just hypothetical situations, of course—into the U.S. and circumvents the Chinese duty, that's an example. This is happening. It's just one mechanism.

Now, it gets even worse with the U.S. now putting up walls around circumvention. If that steel finds its way into Canada, which it can, and then repatriates back to the U.S., we then have issues around Buy America. They're seeing Canada as a route to get back into the U.S. through circumvented steel.

This is something that gets into transformation of steel and what classifies as country of origin, but it's an important aspect, and we're glad it was partially addressed yesterday in the budget.

**Mr. Bob Bratina:** How long does it take for a problem to be resolved with trade remedies, and is it an ongoing problem?

**Mr. David McHattie:** In general, Canada's system works relatively efficiently from beginning to end. The formal process is nine months. We begin working maybe another three months in advance of that.

We can provide you with a list of the roughly seven ways that we see circumvention happening. I'd like to add one other one, which we experience ourselves today. We have a successful finding against China that establishes a normal value, a fair selling price. They're still exporting the product to Canada at that price, yet they are selling at a lower price to the market we're competing against, which is illegal, and somebody is getting a rebate somewhere outside of the system to compensate for that difference. We didn't have a process and we haven't yet—until we implement the budget, so I recommend that we implement it as quickly as possible—whereby we can share the evidence, compel people to testify about how this is happening, and then have a panel of judges make a ruling.

We are thus very happy for the actions taken, because this has a consequential impact on us every day.

**Mr. Bob Bratina:** Sean, what's the wage range of ArcelorMittal Dofasco employees in Canada, in Hamilton?

**Mr. Sean Donnelly:** David and I were just chatting about this earlier, comparing Calgary wages to Hamilton's. All in, wages, pensions, benefits, are in the order of \$100,000 Canadian a year for a steel-making job on average.

• (1650)

**Mr. Bob Bratina:** What we have, then, is the sought-after, middle-class kind of employment. How do you compete with lower-wage jurisdictions, even in North America? How can you pay those kinds of wages and benefits against other operators' costs in different places?

**Mr. Sean Donnelly:** Driving efficiency and innovation is a constant battle. As you recall your history with Dofasco, in my 35-year career, when I started we used to make 2.5 million tonnes with 14,000 people. We now make 4.5 million tonnes with 5,000 people. That's how we've done it.

**Mr. Bob Bratina:** In the advance-manufacturing nature of the company, I remember when the crane pulpits were wide open and guys were sweating away over hot furnaces. Now, when I toured the company a month ago or so, people were sitting in air-conditioned booths looking at screen monitors, so how advanced is this manufacturing?

**Mr. Sean Donnelly:** With all due respect to all our employees in all the steel industry, there are some tough jobs out there, but, yes, there's a lot of automation, a lot of innovation in what people are doing. You're right, the people tour our plant and ask where the 5,000 employees are. To give you a sense, out of the 5,000 employees, roughly one-third order of magnitude are maintenance employees, and a lot of those are high-tech, electrical-type technicians working on some of the equipment that ABB supplies to us, key equipment in automation.

**The Chair:** Your time is up.

We're going to move on to the NDP right now, and Mr. Duvall.

**Mr. Scott Duvall (Hamilton Mountain, NDP):** Thank you for coming, gentlemen.

I appreciate the tour, Mr. Donnelly. It was very good. Having been a steelworker for thirty-four and a half years, one thing I was impressed by was the health and safety of your plant, and the cleanliness. It was unbelievable compared to what I used to work in back in the seventies.

We've heard from other witnesses about the dumping of steel and how it's affected their businesses. You can all answer. How has it affected your business? Is it running at full or half capacity because of this dumped steel coming in? Has it created job losses or layoffs? If it were to be fixed to make it fairer, would you be increasing your product, and would you be doing any more hiring?

**Mr. Sean Donnelly:** I'll let Dave answer after this, but I think at an industry-wide level, at a North American level, the North American steel industry is operating at about 77% capacity. I'll speak for ArcelorMittal Dofasco; we're operating at 100% capacity.

There are two effects. One is on volume and the ability of those who aren't at capacity to step up to capacity, and the second piece, and where we feel the pinch, is on pricing. When pricing gets deflated due to unfair trade practices, that's where we feel the loss in margin, and the squeeze on margin. That's going to put jobs at risk.

**Mr. David McHattie:** I'll say the same thing. When competition is won unfairly by a foreign competitor, we lose volume, so we employ fewer people to operate the plant. We lose price, therefore, we have less profit to reinvest in the facility. Ultimately, year after year, if you have less money to reinvest, you end up with a less productive facility. This is why we take trade cases, so we can restore market conditions so the price is a fair price and we can reinvest and employ more people.

It's been our experience that we have a trade case, we have a positive uptick for a period of time, we rehire people, then it shifts.

This is why the government needs to continue to be diligent and continue to improve its trade laws year after year.

**Mr. Éric Ducharme:** It's a very good question. Our company in the last six years has been running at not even 50% of capacity, so we could definitely do more with the same infrastructure and get more people into the facility.

I mentioned the Champlain Bridge, which is 25 minutes from our facility; we lost almost half the production of the steel there, so just there we missed a hell of an opportunity. A few years ago, when there was a lot of investment in western Canada, more than 125,000 tonnes of steel that we could have fabricated went out of this market. These are all projects that we've missed, so it could improve; we wish it would.

• (1655)

**Mr. Scott Duvall:** Another good question we had from other witnesses, in terms of trying to make our trade remedy investigations a little bit stronger and tougher, and with better rules, was about union participation, which the budget yesterday acknowledged. Do you see any problem with the unions coming in and participating, and would having the ability to file complaints, like other countries have, be helpful in doing so?

**Mr. David McHattie:** In reality, you need to have the economics—the income statement, the costs, the detailed pricing, the competitive information—in order to file a successful case and to follow it through, so it's very difficult, I believe, for the unions to file a case. However, the actions committed to yesterday, for unions to be able to be a supportive party and to make representations, I think will be helpful. It adds another voice. We speak for our employees, of course, but it almost doubles the same things that we're saying and adds weight to them. We're grateful to see them want to participate.

**The Chair:** Thank you.

We'll move over to the Liberals now.

Mr. Sheehan, go ahead.

**Mr. Terry Sheehan (Sault Ste. Marie, Lib.):** Thank you to the committee for allowing me to participate once again.

To the presenters, thank you. That was all good.

Congratulations to Tenaris on your announcement about the start-up in Calgary. I know what a shot that can be, with your start-up announcement recently in Sault Ste. Marie as well, so congratulations.

Both Bob and Scott asked questions about some of the measures that were in the budget announced yesterday. I'd like to ask about two others that were there, and I'll start with the scoping ruling. I'll ask David McHattie this question.

How can the scoping ruling help the industry, and how is it different from anti-circumvention—similar but different?

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

A scope ruling is a process that will bring transparency to this so that people who want to, in our view, move outside of a trade finding now need to have their request public and have the evidence, and we as domestic producers, who are employing Canadians, have the opportunity to share the real impact of this, understand the decision, and have it all in a public forum.

For us it's critical. We were even told at the Federal Court—we appealed this to the Federal Court when we found out—that we didn't have any standing to appeal this to the Federal Court because we were not a party to the original decision. This now recognizes that we have appeal rights.

We think this will have a big positive impact on those impacted by unfair trade.

**Mr. Terry Sheehan:** Going to the fourth measure—there are some other smaller measures in there as well—we saw some of your inputs, both the unions and the producers, and heard on this committee about the non-market. China's a non-market, and subsequent countries. Can you explain the particular market situation and how that assists in that kind of situation?

**Mr. David McHattie:** This is actually, in our view, the most valuable of the tools. It enables the CBSA now to investigate and make a decision when calculating the dumping margin to make sure that they are considering what would be the costs and pricing from an exporter, based on a properly functioning market. If their costs and/or prices are distorted in some way, for some reason, such that there's a particular market situation going on that impacts their cost, now the CBSA has the opportunity to say, "Something wrong is going on there. I'm going to go to a surrogate cost that is more reflective of reality and make the calculation on the normal value or on the dump value." That will increase, therefore, what that fair selling price will be in Canada, and the market prices can go up by whatever the gap there was. These are profits that we'll be able to reinvest, employing more Canadians and making our facilities more productive.

This is a very important opportunity for us. The United States and many other countries had this tool and Canada didn't. This is fantastic modernization.

• (1700)

**Mr. Terry Sheehan:** Advanced manufacturing has been talked about in the past. How important is that to the industry, and what might be some of the plans for the future modernization of steel mills in Canada?

**Mr. David McHattie:** I couldn't express what our colleague from ABB described as what manufacturing of the future will look like. It looks like that today in our facility.

For example, we can be on a laptop anywhere in the world and watch the production go through our line. We can watch as an operator changes the speed, the temperature, the torque, or whatever it would be in that line. It's giving them predictive opportunities to improve that. It makes it more productive, there is more quality control, and it is something that our clients demand. Advanced manufacturing is here today, and as Mr. Donnelly said, the commitments of the government are critical to help our investments in this.

**Mr. Sean Donnelly:** I acknowledge Carolina's comments about ABB, but industry 4.0 is something that we're looking at, both from the view of a global entity and locally: how do we connect the data to the people?

**The Chair:** Thank you.

We're going to the second round, starting with the Liberals.

Go ahead, Madame Lapointe.

[*Translation*]

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

Hello and welcome, everyone. Thank you very much for being with us today.

Mr. Ducharme, I have a number of questions for you.

I know your company has activities on both sides of the border, in Canada and the United States alike. If NAFTA were reopened, would you expect certain problems or improvements?

**Mr. Éric Ducharme:** It depends on what the changes are, of course.

In my presentation, I gave the example of the Gordie Howe bridge. To my knowledge, this is the first time in Canada that there have been clauses requiring purchases to be made in Canada or the U.S. This means that there will be North American competition for the project.

Among the major infrastructure projects in Canada, there are three bridges: the Gordie Howe bridge, the Champlain bridge, and the George Massey bridge, in Vancouver. They will all spur strong demand for raw materials, including steel.

As I said, 50% of the work for the Champlain bridge has already been awarded to European companies.

As to the George Massey bridge, for which a bidding process is ongoing, it is clear that a large part of the steel will come from Asia. There will be international and Asian competition. Regardless of what we do in Canada, we will not win.

As to the Gordie Howe bridge, perhaps owing to the U.S. influence in the project, there are buy American clauses. NAFTA will enable us to create jobs and participate in the construction of this bridge. I see a lot of benefits.

In my opinion, it should do more for the public projects that will be funded by our tax dollars.

**Ms. Linda Lapointe:** Thank you.

You said that half of the work for the Champlain bridge will be done by foreign companies. Were you talking about the design or the steel structures to be delivered?

**Mr. Éric Ducharme:** I meant both. Half of the manufacturing work will be done by foreign companies. There was a international bidding process for the engineering work and bids were received from companies in several countries. The design will be done by a mix of international and local companies. As to the manufacturing of the metal structures only, half of the work will be done here and the other half elsewhere.

**Ms. Linda Lapointe:** There is a competitive advantage. You said it is hard to understand why the Spanish companies won the contract for the steel. From what I understand, the steel comes from Spain. You also said that we have to beware of Korea and China.

The committee was told that a ton of steel shipped from China to Vancouver costs \$40. Steel manufactured in Hamilton costs \$120 per tonne, and if it is shipped to Vancouver, then it costs \$200. I understand...

• (1705)

**Mr. Éric Ducharme:** An important point was raised earlier. I am talking about measures that can be taken to help steel companies. First, a distinction has to be made between raw materials and manufactured products. What you are describing is different from my situation. For my part, I am a manufacturer and I deliver a final product.

**Ms. Linda Lapointe:** I know there are various types of steel. If we use steel from other countries to manufacture steel structures for all our bridges, would it make a difference to the quality of the final product?

**Mr. Éric Ducharme:** Yes. I am not trying to cause a stir here today, but I have to say there is a huge difference. The situation with the Champlain bridge is not over. In Alberta, there have been all kinds of stories about this kind of industrial project. The one that comes to mind involves the steel modules from Korea that had to be cut into four sections to be transported. So, in the end, there were no savings for the client. The client ended up paying more, in fact. That is just one example.

**Ms. Linda Lapointe:** Okay.

From what I understand, it was actually an issue with transparency in the bidding process.

What should the Canadian government do in this regard? Should we set new standards? In your opinion, what measures could be taken to improve the steel industry as a whole? What changes would you like to see?

**Mr. Éric Ducharme:** There are many things.

First, I think that as manufacturers we should be better informed about the recourse available to us, so we are not left on the sidelines. Going back to the example of the steel from Spain, what recourse do I have in that case? I know it is dumping and it is 40% to 50% below what it should be. I can prove that. All I can do, though, is sit there and watch.

So what recourse do I have with the government? What can I do to ensure that steps are taken in response to my appearance before this committee and the comments I am making? That is one thing.

I would also go back to my idea of a "Buy Canadian Act". The U.S. has had a Buy American Act for a number of years. It is perhaps viewed negatively. In the U.S., the Buy American Act applies at various levels. For the bridge projects, it applies across the board. That means 100% of products and services. The ADF Group was recently awarded a project at New York's Lagoon Airport. It is a major expansion. For this airport, the Buy American Act applies at 50%. That means 50% for the U.S. and 50% for outside companies, which means we can play a role in the project.

In Canada, I think we could get to that point. That possibility should also be explored.

**Ms. Linda Lapointe:** Thank you very much.

[English]

**The Chair:** We're way over time, I'll have to cut you off there. Maybe you'll get another chance to finish up your thoughts.

We have just enough time for two four-minute slots here. We're going to have the Conservatives go first.

**Hon. Gerry Ritz (Battlefords—Lloydminster, CPC):** Thank you, Mr. Chair. Thank you ladies and gentlemen for your presentations today. Certainly tech is the efficient wave of the future.

I thank you, Ms. Gallo, for your presentation.

There's all this talk about dumping. Is there actually physical steel showing up, or is it they're just using pricing as a hammer to bring your price down?

David, you alluded to that.

Éric, you also talked about how the Champlain Bridge will be half steel from somewhere else. At the same time, you alluded to the fact there's really no saving by the time they transport and all this. I was a general contractor in my former life, and if there wasn't saving I didn't do it.

Who's buying? How much of this is actually showing up in Canada, where's it going, and who's actually buying it?

**Mr. Éric Ducharme:** Right.

**Hon. Gerry Ritz:** If you're going to register an anti-dumping thing, it has to come from you, as a manufacturer.

**Mr. Éric Ducharme:** What we've seen in the market... Obviously, these firms from Spain did not decide one morning they were going to travel to Canada and promote their steel. It's these engineering, procurement, and construction, EPC, contractors, the ones who take the work and eventually subcontract it.

On that specific bridge, you had a group of Korean and then Canadian-based companies and then you had Spanish with Canadian-based. The Spanish EPC who was on the project...it went out for bid, and eventually he looked at the prices and he said, if we take steel from sources that I already have in Spain we could cut the price down by whatever, be more competitive, and eventually get the work. This is where it started.

• (1710)

**Hon. Gerry Ritz:** Okay.

Is the quality the same? It's all done to specs.

**Mr. Éric Ducharme:** This is what I'm saying. I don't want to open anything here, but I foresee issues on the Champlain Bridge, they're coming.

**Hon. Gerry Ritz:** That was the problem with the last bridge.

**Mr. Éric Ducharme:** There are issues with that steel coming in, there are major issues coming, which this contractor is going to have to live with.

**Hon. Gerry Ritz:** It's all engineered and the specs are there. He's taking a liability is what you're saying.

**Mr. Éric Ducharme:** He's going to have to live with it, for sure.

I mentioned the example in Alberta with that Korean steel that came in. Eventually I had a good relationship with this EPC, and they told me that the structure ended up costing them double what it would cost them to buy it in Canada instead of Korea.

**Hon. Gerry Ritz:** So they'd never do it again.

**Mr. Éric Ducharme:** I don't think so, no.

**Hon. Gerry Ritz:** All right, so they learned their lesson.

David, you mentioned the trade remediation things that were in budget 2017. I agree with you it's a good start. The problem I have is I see that as more aspirational than actually being applied, the problem being that as soon as you start.... And we had begun discussions with China, complementarity studies on a free trade agreement, and we did the FIPA and all those types of things.

But as soon as you went to the next step, which we held off on, you have to guarantee China market economy. As soon as you do that, you have a whole different set of countervail and anti-dumping rules and so on. What we have in the budget will be a moot point. By the time we get the budget voted through and passed, if we move to that point with China already on market economy, we need a whole new set of rules.

**Mr. David McHattie:** Our view is that Canada is in a very strong position to negotiate a free trade agreement with China, although you would know the details more than I would. In terms of market economy status, however, Canada is a world leader in its policy, because each time we file a case against China, we need to demonstrate that they are not a market economy.

**Hon. Gerry Ritz:** I know, but if you grant them that status, you can't use that argument anymore.

**Mr. David McHattie:** In reality, then, we should not grant them anything, because we need to prove it. They should be informed as we're negotiating. You already have market economy status; the Canadian producers have to prove that you are not a market economy in status.

**Hon. Gerry Ritz:** They go to the WTO. They say they have it, but they don't.

**The Chair:** We're going to have to end it there.

**Mr. David McHattie:** I will answer his question a little bit by saying that the particular market situation in the medium term may be a tool that will enable us, if China continues to act the way they

are doing, to use the new tools and to find successful cases against them.

**Hon. Gerry Ritz:** Yes, it's a really fine thread you're walking along.

**The Chair:** Thank you.

We're going to move over the Liberals.

Ms. Ludwig.

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

I represent the riding of New Brunswick Southwest, so obviously I'm from Atlantic Canada. The shipbuilding industry is an important industry for us. It also exists in British Columbia, Newfoundland, Nova Scotia, Ontario, and Quebec. Has the dumping or the overcapacity of steel products into Canada affected Canada's shipbuilding industry?

**Mr. Sean Donnelly:** We don't make shipbuilding products in Canada at ArcelorMittal, though certainly our global operations do. I can't speak to that.

**Mr. David McHattie:** I think we could say that in theory a healthier, more competitive Canadian domestic industry will enable and facilitate a healthy and competitive shipbuilding industry.

**Ms. Karen Ludwig:** Thank you.

Mr. Ducharme.

**Mr. Éric Ducharme:** Unfortunately it's not in my scope of expertise, so I'm not able to answer that question.

**Ms. Karen Ludwig:** Ms. Gallo?

**Ms. Carolina Gallo:** Dumping is a little bit outside our purview, MP Ludwig. I would say that it's a fact of the cost of production, and anything that goes into factoring a cost of production perhaps would have a negative impact on your domestic industry. You're speaking to essentially all of my customers right now in the room, and what I can tell you as a manufacturer—ABB does manufacture—is that we had a Korean dumping case that we had to take to court, and we went to court. There is a “buy Canada” provision. It's either a locally “made in Canada”....

Even globals such as ABB are hurt when you fail to take into account the jobs and the resources in Canada for big projects.

**Ms. Karen Ludwig:** Thank you.

I'm just going to jump in with one more quick question.

To what extent do the Chinese invest in the Canadian steel industry? Is there Chinese ownership in the Canadian steel industry?

• (1715)

**Mr. David McHattie:** Not to our knowledge is there any Chinese ownership of the Canadian steel industry.

**Mr. Éric Ducharme:** There is not to my knowledge either.

**Mr. Sean Donnelly:** Likewise, there is not to my knowledge.

**Ms. Karen Ludwig:** Great. Thank you very much, gentlemen.

**The Chair:** Thank you, folks, for coming in, and thank you, Ms. Gallo, for coming through on the video. We're going to end this session.

We're going to do a report on our steel study, and if you want copies, we'll get them to you, though it will take us a little while before we translate it and get it out.

Thanks very much for being with us today.

We'll suspend for just a minute. Then we're going to have five minutes of future business, and then we have to get up to vote.

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