



February 11, 2016

Honourable Kathleen Wynne, Premier
Legislative Building
Queens Park
Toronto, Ontario
M7A 1A1

Dear Honourable Wynne:

On behalf of the Sault Ste. Marie Chamber of Commerce and its 724 members, we would like to call attention to the urgent situation in which Ontario's steel industry finds itself consumed by the challenges facing Essar Steel Algoma and Tenaris Algoma Tubes locally.

Essar:

- 4M ton integrated steel manufacturer
- Employs 2700 people in Sault Ste. Marie
- Supports a further 6400 pensioners and their dependents
- Has been manufacturing quality steel products for over 100 years
- Spends \$1.2 billion annually on goods and services
- \$120 million of which is with more than 600 local businesses
- An integral supplier to major sectors of the economy such as automotive, energy, construction and light manufacturing
- Leading consumer of energy and transportation services in the province, amounting to an annual spend on electricity and natural gas in the range of \$80-\$100 million
- Annual inbound and outbound freight volumes totaling on average 24,000 trucks, over 18,000 rail cars and 354 vessels

Today the Canadian steel industry is facing crisis, one that has serious ramifications for everyone in Sault Ste. Marie and region, and extends to communities across this country where 20,000 men and women are directly employed in the manufacture of steel. Two of Canada's largest steelmakers, of which Essar Steel Algoma is one, are currently operating under the Companies' Creditors Arrangement Act. Others, including Tenaris locally, have undertaken massive layoffs in response to dire market conditions. Steel prices are at a 12-year low, hard hit by the collapse of world steel demand and a sustained slump in the energy sector. This has prompted a flood of low-priced imports into the Canadian market by international competitors who are not constrained by the same labour and environmental costs. In many cases, these companies are state-owned or subsidized by their governments.

Essar is currently building a plan and seeking partners that will enable them to emerge from CCAA as a stronger, more sustainable business. They are aggressively tackling those factors they can

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control but also need public policies that will help them maintain a viable business model, one that allows them to attract and keep investment in Ontario, strengthening their industry and their customers.

Specifically they require:

- 1) A strong manufacturing customer base for their products;
- 2) Environmental standards that don't disadvantage them against competing jurisdictions;
- 3) Manageable operating costs and equal opportunity to supply in the Ontario marketplace;
- 4) Support for skilled trades and the development of their workforce

Pro-Manufacturing Agenda

The manufacturing base in Canada, and here in Ontario, is shrinking. This is their largest domestic customer. Essar, along with their customers are seeking pro-manufacturing policies to strengthen all industrial sectors, the driver of much economic and employment strength in Ontario.

Steel is an essential part of the supply chain for key industrial sectors in Ontario. Three quarters of all manufactured goods contain steel; and thanks to continuous improvement and innovative new technologies, more than half of the steel grades that are produced today did not exist 15 years ago.

As Ontario manufacturers strive to remain competitive they must continue to invest in industrial innovation. Funding assistance through the Northern Ontario Heritage Fund and the Ministry of Northern Development will go a long way in enabling Essar to make important investments in their steelworks, increasing their productivity and capability, and enabling them to expand their reach into new and growing markets.

Ensuring Competitive Market Position

As Essar looks to remain competitive within the North American marketplace, manageable operating costs and a level playing field in the domestic market are important.

On the Energy front, electricity remains one of their leading operating costs. Essar commends the government on the continuation of the Northern Industrial Electricity Rate Program. The NIER program is very important for Northern Ontario industries as it helps to compete while achieving greater efficiency in energy consumption. They support responsible resource development and encourage the government to deliver policies that keep the cost of industrial energy competitive so that they can preserve Ontario jobs and attract investment and growth opportunities.

With respect to environmental performance, steel is both energy intense and trade exposed. Credit under a cap and trade regime for greenhouse gas reductions already made, and recognition of fixed process limitations would be positive measures towards ensuring Canadian

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steel producers are not competitively disadvantaged.

Infrastructure and Government Procurement present a significant opportunity to drive economic growth. For the steel industry, infrastructure investments offer two distinct benefits:

1) They facilitate the movement of inputs to their mill while allowing for their products to get to market competitively and without excessive time delays; and

2) Infrastructure and construction is one of their largest market segments.

In Canada Essar face open competition from imports for government procurement markets; yet they face outright barriers or restrictions when they look to participate in projects in the US and elsewhere. We support free but fair trade and we encourage the government to exercise their rights in trade agreements to establish Canadian preference policies.

Foreign steels have on average, carbon footprints more than 6 times that of Canadian steel. To the extent that the government is seeking to reduce its environmental impact, we believe it should look to maximize the use of Canadian steels in infrastructure projects or at the very least, hold foreign suppliers to the same environmental and safety standard we value as Canadians, and to which Canadian manufacturers must adhere.

Strengthening and Modernizing Workplace Pension Plans

Ontario employers, both public and private, cannot compete with pension funding regimes in neighbouring jurisdictions. Global businesses see Ontario as one of many geographies where they can conduct business; however they will not invest where pension regulations impose such a heavy burden on a company's cost structure. In addition to this competitive disadvantage, funds allocated by Ontario businesses to pension funding cannot be used to invest in operations, improve productivity or create jobs. It has been their experience that lenders charge more, or simply refuse to lend to businesses whose cash flows are committed to pension solvency funding, and this drives up the cost of capital for Ontario businesses.

Ontario's strict solvency funding requirements, introduced in the late 1980's in a high interest rate environment, have paradoxically decreased retirement income security in Ontario today.

The burden of pension funding has caused a dramatic decline in defined benefit pension plan coverage as companies have closed their plans, replacing them largely with defined contribution plans. They have also reduced the competitiveness of the remaining defined benefit plan sponsors, contributing to a decrease in Ontario business investment and employment opportunities, as profoundly evidenced in the manufacturing and steel sectors.

A 2015 Statistics Canada Report indicated the proportion of private sector pension plan members in DB plans has decreased from 72% in 2003 to 47% in 2013. Statistics were not readily available, but almost all private sector plans were defined benefit in the 1980's.

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Essar believes a viable plan sponsor is the best source of pension benefit security. When pension funding requirements threaten that viability, those funding requirements no longer serve their purpose.

Promoting Skilled Trades and Workforce Development

Skilled Trades and the development of their people:

- Essar asks for your assistance in promoting modern manufacturing and skilled trades as a career choice for today's youth.
- At Essar they have a vibrant apprenticeship program - one of the largest in the province with 42 apprentices currently in the program - however the average cost of an apprenticeship is upwards of \$350,000. The Apprenticeship Training Tax Credit assists them to offer these training opportunities. Continuation of this tax credit helps them to maintain such a successful program.
- As their workforce demographic shifts, they are forced to make a greater investment in the transfer of knowledge and skills. This requires industry and role-specific professional development and specialized training. The Canada Ontario Job Grant's Skills Training Pilot Programs accommodate in-house, practical training for the specialized needs of the industry. They very much support the continuation of the Customized Training and UpSkill programs.

Essar commends the government for their commitment to the skilled trades and requests that these programs continue to be offered which are vital to meeting the need for skilled labour in our province today and in the future.

In closing, time is of the essence for Essar Steel Algoma, their employees, their retirees, their suppliers, and the broader community. They require near-term support at this critical stage in their restructuring and supportive public policy that will help them contribute to long term economic growth by attracting investment, innovating their processes, and reaching new markets. We call on the government's support at this critical time.

Best Regards,



Monica Dale, CAIB, CPIB, CIP,
2015-2016 President
SAULT STE. MARIE CHAMBER OF COMMERCE

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- c.c. Honourable Charles Sousa, Minister of Finance**
- c.c. Honourable Michael Gravelle, Minister of Northern Development and Mines**
- c.c. Honourable Glen R. Murray, Minister of Environment and Climate Change**
- c.c. Honourable Brad Duguid, Minister of Economic Development, Employment and Infrastructure**
- c.c. Honourable David Oraziotti, Minister of Government and Consumer Services & MPP for Sault Ste. Marie**
- c.c. Brenda Stenta, Essar Steel Algoma**
- c.c. Kalyan Ghosh, Essar Steel Algoma**
- c.c. Members of the Sault Ste. Marie Chamber of Commerce Board of Directors**