

February 11, 2016

The Right Honourable Justin P. J. Trudeau
Prime Minister of Canada
Office of the Prime Minister
80 Wellington Street
Ottawa, Ontario
K1A 0A2

Dear Honourable Prime Minister Trudeau:

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:

- A 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 a crisis, one that has serious ramifications for communities across our country since 20,000 men and women are directly employed in the manufacture of steel. Two of Canada's largest steelmakers, one of which is Essar Steel Algoma, 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 not constrained by the same labour and environmental costs. In many cases, these companies are state-owned or subsidized by their governments.

The steel industry is aggressively tackling those factors that they can control but, like all Canadian manufacturers, they also need public policies that will help them to attract and keep investment in Canada, to strengthen their industry and their customers. Specifically they require a pro-

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manufacturing agenda, reinforced by procurement practices that maximize economic returns for Canadians, and a modern trade remedy system that is equipped to meet the challenges of evolving global markets.

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

The availability of advanced steels is crucial for the success of nearly every industrial sector; but more important is the proximity to market for just in time delivery, and ready access to resident expertise and skilled workers to support its use. For Canada to attract and retain a strong manufacturing sector, it must have a strong domestic steel industry.

Pro-manufacturing Agenda

The manufacturing base in Canada 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.

As Canadian manufacturers strive to remain competitive they must continue to invest in industrial innovation. Essar commends the government on the introduction of the Advanced Manufacturing Fund and looks to the government for ongoing support of this nature for capital-intensive projects in large and mid-size manufacturing businesses. Incentives to process improvements and environmental controls, either through access to capital, tax credits or R & D tax incentives will serve to make the case for investment in Canada as opposed to other jurisdictions. This particularly applies to support for research and development where recent changes to the SR&ED program now exclude investments in close-to-market innovation, particularly for larger companies like Essar. This sort of development work is very important in industrial sectors that are seeking to stay ahead of the curve in a highly competitive marketplace.

Infrastructure Investment and Procurement Policy

Essar commends the government for their \$125 billion Infrastructure Investment Program, designed to grow our economy, create jobs and strengthen our cities and towns. 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 are two of their largest market segments. Steel is an integral component in every infrastructure project, representing a large % of overall material content, providing strength, versatility, durability and 100% recyclability allowing for improved environmental performance across the entire life cycle of buildings and transportation systems.

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In Canada, Essar faces open competition from imports for government procurement projects; yet they face outright barriers or restrictions when they look to participate in projects in the US and elsewhere. Where reciprocity does not exist and cannot be negotiated, they encourage the government to exercise their rights in trade agreements to establish Canadian preference policies.

Canada is committed to reducing greenhouse gas emissions. Foreign steels have on average, carbon footprints more than 6 times that of Canadian steel. For this reason alone we believe that the government 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. To the extent that steel and other materials used in these infrastructure projects can be manufactured in Canada, the multiplier impacts of the \$125 billion investment will be maximized to the benefit of all Canadians.

Trade Remedy Modernization

We support free but fair trade. Essar competes against the world at home and abroad but they cannot compete against state owned enterprises that receive non-economic forms of support. Effective trade remedies that maintain market-based trade in Canada must be an explicit part of Canada's international commerce strategy.

Oversupply of steel in nations such as China has shifted the global supply equation, causing surplus steel tons to be dumped in markets of least resistance. Canada has been hard hit by a flood of low price imports, displacing domestic share and driving down the price to unsustainable levels. There is an immediate need for reforms to our trade remedy system, specifically:

- Streamline and accelerate the anti-dumping process to provide for quicker, more effective remedies;
- Improve pre-emptive tracking of fraudulent and unfairly traded imports, and provide greater transparency regarding inbound shipments to facilitate better reinforcement at point of entry; and
- Enhance safeguards to protect the industry from dumped and subsidized imports.

The financial and social risks for all levels of Government that would result from providing crucial support for Essar Algoma are small compared to the costs of an unnecessary collapse of this viable business.

We commend you on your government's commitment to the refurbishment of Canada's vital infrastructure. Essar, as Canada's only full service plate manufacturer, looks forward to playing a key role in support of that investment.

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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

- c.c. The Honourable William Frances Morneau, Minister of Finance for Canada
- c.c. The Honourable Chrystia Freeland, Minister of International Trade
- c.c. The Honourable Amarjeet Sohi, Minister of Infrastructure and Communities
- c.c. The Honourable Navdeep Singh Bains, Minister of Innovation, Science and Economic Development
- c.c. The Honourable James Gordon Carr, Minister of Natural Resource
- c.c. Terry Sheehan, MP 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