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**RE: Canadian steel safeguard action consultation**

On behalf of Canadian Manufacturers & Exporters (CME), our 2,500 direct members and the nearly 90,000 manufacturers across the country, we are writing regarding the government's consultation on proposed safeguard action for certain steel products.

Manufacturing is the largest business sector in the country, directly accounting for 11 per cent of GDP, 75 per cent of exports, and 1.7 million employees in high wage, high skilled jobs in nearly every community across the country. Our sector both manufactures steel and is a large consumer of steel products. As a result, these consultations are of significant interest and concern to our members.

CME has publicly supported the government's steel and aluminum tariff action and has consistently called for safeguard measures to guard against steel diversion. In our initial submission on steel and aluminum tariffs back in June, we highlighted the urgent need to introduce safeguards to protect the domestic market against third-country import surges. That is because US tariffs on steel threatened to distort global flows of these primary products. We are now beginning to see signs that this problem is materializing in Canada.

Consequently, CME supports safeguard action for steel plate, concrete reinforcing bar, energy tubular products, hot-rolled sheet, pre-painted steel, stainless steel wire, and wire rod for the following reasons:

1. Because of our proximity, steel originally intended for the US may be diverted into Canada and dumped by foreign exporters. This would undermine our domestic steel market.
2. Europe and other markets have already implemented safeguards and Canada must join this group or risk becoming a dumping ground for steel.
3. It will alleviate US concerns that Canada is a backdoor for steel products into their market and could potentially strengthen our relationship with the US and our NAFTA bargaining position.
4. Safeguards should not negatively affect Canadian companies already importing these items from abroad **so long as** the measures are specifically targeted to avoid import surges and the resulting negative price and volume effects.



Over the past two weeks CME has canvassed its members for their thoughts on the proposed product list for safeguard action. While most agree with the rationale mentioned above, they are concerned that very restrictive safeguard action could negatively affect their supply chains and businesses. In other words, their support for these measures is contingent on the government properly structuring the safeguard system so that supply chains dependent on imports for products not manufactured in Canada are not disrupted.

Striking the right balance is important. That is why CME has been engaging with member manufacturers to help support exclusion requests in instances where products are not made in Canada and products are needed from abroad. Furthermore, supply chains that rely on importing these specific products from abroad are well established. They cannot simply be switched on a whim and are therefore very susceptible to abrupt changes. Companies that are part of such supply chains do not have alternative sources of supply and an improperly structured safeguard would increase their prices and put their business at risk.

Therefore, CME suggests that the government structure the steel safeguards along the lines of a tariff-rate quota. This approach should also try to harmonize with the EU's tariff-rate quota system that was launched in July. A quota system, where surtaxes would only apply once imports exceed 100 percent of the average total volume of imports from the three previous years, is optimal. In instances where volumes beyond quota levels are required, Canadian producers can meet the additional demand and mitigate impacts associated with the payment of any over quota-tariffs. This approach would also allow the government to adjust the quota rates more responsively should the need arise.

We would also add that the government should make clear the rate setting, adjustment, and monitoring process it intends to use for the safeguards. This would provide greater certainty to business and engender confidence in the marketplace. The objective of safeguards is to ensure stability in the Canadian market. So, it is paramount that a tariff-rate quota system also be administered in a way that does not encourage a race to the bottom from importers rushing to fill the global quota. This would be an unintended consequence that should be considered by the government and avoided.

Thank you again for the opportunity to comment, and to the government for engaging with CME and its members throughout this consultation process. We hope our comments provide helpful guidance as the government makes final determinations on the structure of its steel safeguard action. While we support the implementation of safeguards to protect our domestic steel market, we believe it must be done with the utmost caution to not inflict additional economic harm on manufacturers and steel product importers.

If you would like to discuss any of the above issues, please feel free to contact us at any time.

Yours truly,

Mathew Poirier  
Director, Trade Policy  
Canadian Manufacturers & Exporters

