

2.2 TRADE FACTORS

Trade issues are of fundamental importance to the domestic steel industry, both from import and export perspectives. Simultaneously, the industry is being pressured by imports, often unfairly traded, while increasingly facing tariff and non-tariff barriers abroad.

Tariffs: Canadian tariffs are nominally higher than those in the U.S.A., but when end-use exemptions are considered, the effective tariff protection is only 5-6%, and declining in accordance with MTN schedules. Existing tariffs are generally ineffective in limiting imports from offshore suppliers due to the tendency to dump or subsidize steel exports.

Normal tariffs in other countries are not generally a barrier to Canadian exports. Tariffs do become a significant barrier to Canadian producers, however, when they are used intentionally to restrict imports as a result of safeguard actions. Recent examples include U.S. surcharges of 10% on imports of stainless steel sheets.

Non-Tariff Barriers: NTBs are increasingly becoming an instrument of foreign government policy. For Canadian steelmakers, U.S.A. NTBs are the most significant because it is a market in which Canadian mills are otherwise generally competitive. Recently, the U.S. Congress has shown a willingness to reinforce unfair trade and safeguard actions administered under existing trade laws with new NTBs. A current example involves U.S. requirements to mark individual pipes and tubes with country of origin. This type of action, over the longer term, presents a serious threat to the industry as a result of the uncertainty it creates about continued market access.

A Canada/U.S.A. bilateral trade agreement on steel trade has been explored with Canadian producers, and a proposal to enter discussions in this regard was offered to and accepted by the U.S. government in April 1984. U.S. industry deferred discussion at that time due to pending safeguard actions against steel imports. Certain U.S. steel factions rejected the concept in January 1985.

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The general industry consensus, which was not unanimous, was that liberalized trade would be favourable. The long-term consequences to the sector, including impact on future investment patterns need to be further explored.

2.3 TECHNOLOGICAL FACTORS

Canadian mills are relatively modern compared with the steel plants in Europe and the U.S.A. today, but the rapid rationalization/modernization programs in these countries will result in very much more competitive facilities in the near future. Canadian companies generally have very modern finishing facilities, and consequently can concentrate spending on primary facilities, improved steelmaking techniques, and continuous casting. The higher product quality and reduced costs at the primary stages benefit all finished products lines.

Steelmaking technology is internationally available, and Canadian producers have a history of commercializing technological advances at an early date. The only major limitation to adopting new technologies is the small domestic market. Once committed to a certain process it is generally necessary for markets to grow sufficiently to support new facilities. Steelmaking plants have very long lifespans. Scrapping of serviceable, fully-depreciated assets can only be justified where operating savings and/or product quality considerations offset capital costs.

2.4 OTHER FACTORS

A number of factors are important to competitive steel production. Major inputs include labour, materials, energy and capital. Canadian producers are not internationally competitive, except with the U.S., in labour and in some materials (Iron ore) costs. Canadian companies are currently tied to captive