The industry will increasingly become capital intensive in order to decrease dependence on internationally uncompetitive factor costs such as labour. For example Dofasco's recent announcement of $600 million in capital projects indicates a net employment gain of only 100 jobs.

2. STRENGTHS AND WEAKNESSES

2.1 STRUCTURAL:

Steel markets are changing, both in size and in composition. Many forces which supported the market's structural growth cycle, creation of infrastructure in industrialized countries, reindustrialization of Europe and Japan etc., have matured. Down-sizing of automobiles, substitution of materials (concrete for structural steel) and improved technologies (stronger steels require lower quantities, improved design technology allow more efficient consumption of materials) all contributed to declining steel consumption per capita and steel intensity in Canada, and in most other industrialized countries. Internationally, steelmakers must come to grips with a quantitatively mature market which, simultaneously is pushing the technological limits for product quality.

The domestic industry faces comparatively little adjustment by international standards. Most plants are of international scale, and well placed with respect to markets in Canada and the U.S.A. Unlike U.S. companies where investment has been spread across several plants with sub-optimal results, Canadian firms generally operate single plants and can focus new investments to maximum advantage. Actual closures of facilities have been comparatively few, although there has been a general shedding of non-essential labour. It has been estimated that Canadian producers require about $30 per year per tonne of currently installed capacity in order to be technologically competitive. U.S. firms are expected to require investment at twice this rate over the next five years.

Domestic mills are generally not capable of competing profitably against low cost suppliers outside of North America. In Canada and the U.S., however, they gain back some advantage by competing other than solely on price. Canadian mills can successfully supply Canadian and U.S. OEMs which have specific, demanding needs for products and services such as "just in time" delivery. Proximity to the largest and most lucrative international steel markets is a major factor in the strength of the industry.

The major weaknesses of the industry include internationally uncompetitive factor costs in labour and the relative strength of Canadian and U.S. currencies internationally. The 30% spread in Canadian and U.S. dollars greatly assists in competing for North American business, but Canadian mills are at a significant disadvantage against most other industrialized and developing countries with currency alignments now in place. Domestic currency strength has also reduced the competitiveness of Canadian and U.S. manufacturers of steel intensive goods, further reducing North American steel demand.

Cost reduction is essential to improved profitability and securing market share on commodity-grade products. Higher product quality is necessary to avoid competing head-on with low cost producers, and to satisfy the requirements of the high margin product customers such as OEMs. Most producers are undertaking capital spending to meet these objectives. It is not clear, however, that reduced costs will necessarily lead to higher industry profits. Continuing over-capacity may push prices downward as costs decline. Producers which do not improve costs, under this scenario, are destined to become hopelessly uncompetitive in the future.