

COMPETITIVENESS PROFILE

PRIMARY IRON AND STEEL
SIC (291)

1. STRUCTURE AND PERFORMANCE

1.1 STRUCTURE:

The primary iron and steel sector consists of 17 companies operating 26 facilities across Canada. These companies produce "primary rolling mill products"; semi-finished ingots, blooms, billets and slabs, sheets, strip, plate, bars, rods, structural sections and rails.

There are three general classes of producers; large "integrated" mills which consume iron ore and produce a wide range of products; Mini-mills which consume ferrous scrap and produce a limited range of products; and "processors" which do not melt steel but produce a narrow line of primary mill products. Integrated mills are integrated backwards into raw materials (iron ore, coal, limestone) and forward into finished products (pipe, wire products). Mini-mills may be backward integrated (scrap) and forward integrated (pipe, wire products).

More than 90% of the industry is privately owned and Canadian controlled. Two mills are wholly provincially owned (Nova Scotia, Quebec) and one has partial provincial ownership (Saskatchewan).

Proximity to market is the prime determinant of mill location (about 90% Ontario, 10% Quebec), but technology (very large production scale requirements) dictates disproportionate concentration in Central Canada. Three companies, Stelco, Dofasco and Algoma, constitute 75% of the domestic capacity, but smaller mills play important regional roles.

1.2 PERFORMANCE:

Despite capital investment of \$5 billion and commissioning of several new plants since 1973, the industry has experienced slow volume growth, primarily due to domestic steel market stagnation. Canadian steel consumption actually declined on average by about 20,000 tons per year between 1973-1983. Growing exports (by about 150,000 tonnes per year during 1973-83) have offset domestic trends and allowed for some increase in shipments. Import penetration has generally remained unchanged at reasonable levels of 10% to 12% of Canadian demand, but significant price erosion has been experienced since 1982 as a result of an international glut of low-priced steel. Market uncertainty in industrialized economies is the root cause of the sluggish performance, but the oil shock, technology (stronger steels, better design engineering) and shifting international market forces (manufacturing in LDCs) are important contributing factors. New facilities once viewed as incremental capacity have become replacement capacity, with a concomitant reduction in older equipment.

Compared with other integrated steelmakers, traditionally Canadian steelmakers have been among the most profitable internationally. Profitability declined sharply in 1982, however, and only one integrated company, Dofasco, recovered strongly in 1984. This sector, however, has generally underperformed the average profitability for all manufacturing in Canada since the early 1970s. This trend is expected to continue as soft markets, excess supply and the growing presence of low cost suppliers (LDCs) work to suppress market prices.

In order to arrest or reverse these trends, capital investments of about \$3 billion must be undertaken by the end of the decade to reduce costs and enhance product quality. Some companies, particularly Algoma, have accumulated serious debt loads as a result of debt financing of capital projects and borrowing to support recent operating losses. The attending capital formation problems tend to be company-specific rather than a general sector condition.