



STATEMENT

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**NOTES FOR AN ADDRESS BY
THE HONOURABLE ROY MACLAREN,
MINISTER FOR INTERNATIONAL TRADE,
TO THE FIRST POLICY AND PLANNING COMMITTEE MEETING
OF THE AMERICAN IRON AND STEEL INSTITUTE**

**TORONTO, Ontario
July 14, 1994**

International trade agreements, of which we have had a few lately, are only useful to the extent that people actually use them to develop efficiencies of scale, rationalization, integration and global competitiveness.

We support those goals because demonstrable benefits flow to efficient producers and consumers alike. The Canada-U.S. Free Trade Agreement [FTA], the North American Free Trade Agreement [NAFTA] and the Uruguay Round of the GATT [General Agreement on Tariffs and Trade] — are all helping to create an environment in which companies, countries and citizens can prosper, if individuals such as yourselves put the agreements to work.

With that in mind, you will understand that I am delighted to address this first policy and planning committee meeting of the newly reconstituted American Iron and Steel Institute. I want to congratulate the Institute for its decision to integrate Canadian and Mexican steel producers as full members. I wish you success with your new strategy and orientation. The fact that you are meeting here in Toronto is certainly a promising signal.

Your new organization reflects the growing range of common interests among Canadian, American and Mexican steelmakers. Together you are competing against other materials, developing new markets for steel, and serving customers who are themselves subject to the increasingly stringent demands of global competition.

Let us look, for a moment, at the North American steel industry as a whole.

The United States and Canada are the major foreign markets for each other's steel. Two-way trade exceeds \$2.5 billion. Strong growth in that trade, particularly since the advent of the FTA, has generated employment in both our industries.

Although Canadian-Mexican steel trade is still fairly small, the links are getting stronger. Just last week we saw the sale of Canada's Sidbec-Dosco to Mexico's ISPAT.

Trade between the U.S. and Mexico is big and getting bigger. Mexico takes nearly a quarter of all U.S. steel exports, and provides about four per cent of U.S. imports.

All in all, fully two thirds of U.S. steel exports are within North America, as are almost one third of its steel imports. I cite these figures because they underline the fact that this is an integrated, continental market, of benefit to all three NAFTA partners.

This also flows to the upstream and downstream markets. For instance, Canadian steel producers spend \$1.20 on supplies in the United States for every dollar of steel they export there. Canadian steel is also an essential input for many U.S.

manufacturers and accordingly an important factor in their competitive position.

Steel Mills on both sides of the border buy their raw material from the same suppliers, and in many cases share ownership of those sources of supply. Sales to customers are normally made on the basis of continental bidding and supply, with just-in-time delivery and strict supplier qualifications.

Look at the rise in cross-border investments within the industry: over half of the members of the Canadian Steel Producers Association own facilities in the U.S. or participate in joint ventures with U.S. mills. In addition, at least three U.S. steel companies have ownership interests in Canada.

The fact that Canada was not included in either the 1984 or 1989 U.S. voluntary restraint agreements reflected the fact of our integrated market (and made our inclusion in the rash of U.S. anti-dumping actions two years ago all that much harder to understand).

The Canadian and U.S. steel industries have extraordinarily close relations, not just through association memberships and shared R&D [Research and Development] efforts, and not just through the shared experience of working with the same union, but also through direct company-to-company ties:

- When Dofasco had a breakout in its blast furnace, it received calls from all over North America offering assistance;
- When Wiererton Steel suffered a fire in its rolling mill, Stelco took up the slack in providing hot rolling services so that Wiererton could continue to meet the needs of its customers;
- When it came to demonstrating the value of steel-framed housing at the Habitat for Humanity exhibition in Georgia a few weeks ago, Canadian and American CEOs [Chief Executive Officers] literally worked side-by-side.

That kind of co-operation, combined with fair competition, has helped strengthen the fabric of the North American steel industry, which is one of the pillars of our integrated economy.

The increased efficiency of our modern new plants, the improvements in quality and product innovation have improved the lives of all our citizens, and should continue to do so.

The Government of Canada wants to see a strong North American steel industry, not harmed by unfair competition — boatloads of

steel brought into our markets from subsidizing countries for sale at practically any price.

The close integration of our markets makes Canada-U.S. steel trade unique in the world. This trade, along with our steel trade with Mexico — our other new NAFTA partner, needs to be differentiated from steel trade with other countries. We not only share a market, but it is the least subsidized and most open steel market in the world.

This is the context in which both the Government and the industry in Canada have consistently emphasized our view that trade remedy actions by any of the NAFTA countries against steel imports from any other are counter-productive and make no commercial sense.

We do recognize, however, that the process of integrating our markets and adjusting to increased international competition is not always easy. We recognize that appeal to trade remedy laws can be attractive. However, these do nothing to promote progress, innovation, efficiency, or competitiveness — things we need to face in global competition.

If you agree with me that our increasingly integrated market, enhanced by the establishment of a North American Free Trade Agreement, should provide for an increase in the free flow of goods among all three partners, then I hope you will take the next logical step and agree that the trade policy in North America should reflect the new economic environment.

Fortunately for all of us, recent developments have provided a number of opportunities to conclude new North American trade rules for all industries, including steel.

We can start by ensuring that the historic achievement of the Uruguay Round of the GATT is fully realized, not only in legislation but in practice as well. The Agreement is an important step towards basing all trade on a shared set of rules. Common respect for those rules is the foundation for the level playing field that we must achieve.

The changes to trade rules under the new World Trade Organization are helpful in many respects. However, the World Trade Organization is not the best forum to address the use of anti-dumping in a free trade agreement.

When Canada joined the United States and Mexico in the NAFTA last January, we did so on the understanding that our three countries would join together in two working groups, one to look at questions of subsidies and the other at anti-dumping in a free trade area. The NAFTA trade remedies working groups provide our three countries with an ideal opportunity to resolve concerns in these two areas. The working groups are looking for solutions

that reduce the possibility of disputes concerning the issues of subsidies, dumping and the operation of trade remedy laws. Canada is determined that these working groups yield positive results within their two-year time frames.

Although these deliberations will be complicated, there is every reason to take up the challenge. In fact, I invite the people in this room to begin the process today. In doing so, I would like to focus on one particular aspect of interest to all of you — anti-dumping measures.

My question to you today is whether such measures fit the emerging North American market environment, in which the pricing behaviour of firms is less likely to be dependent on their national location. Should firms not react to price competition in the same way, regardless of whether that competition is coming from Hamilton, Cleveland or Monclova?

This situation prompts a number of questions, the answers to which will chart the trade remedy agenda for the next 18 months:

- Are the definitions, thresholds and mechanisms provided in current anti-dumping law the right measures for determining "inappropriate behaviour" in the North American context?
- In an integrated North American market, where firms have rationalized production on a North American basis, the concept of a national industry may no longer be viable. Should we examine the impact of pricing behaviour on the North American market as a whole?
- Is it possible to establish a more direct link between the pricing practices of one firm and their impact on another? For example, does the pricing behaviour of one firm affect the pricing behaviour of another? If so, how long does the effect last and how does the firm or the market in which it operates compensate?
- Should remedial action by Government in response to pricing behaviour be limited to products — as in dumping — or could it be assessed on a particular firm — as in competition law? Beyond that, we could look at which method is likely to elicit a more effective response in terms of restoring a competitive equilibrium to the market.
- Should different approaches be considered for different sectors of the economy, depending on their circumstances or degree of need?

These are the sorts of questions that will have to be answered if we are to establish a trade remedy regime in North America that reflects the reality of the North American market. The people in

this room today will have considerable influence on the answers to those questions.

In your deliberations, it would be useful to consider how other countries have approached this question:

- Australia and New Zealand have agreed to treat trade in their free trade area as domestic commerce.
- Within the European Union, dumping laws have also been eliminated. In dealing with third countries, a common anti-dumping regime applies.

Before concluding, I could not discuss trade rules without making a quick reference to ongoing negotiations regarding the Multilateral Steel Agreement [MSA].

Canada supports this initiative and continues to participate fully in the MSA negotiations.

In our view, the MSA negotiations provide steel producing countries with an opportunity to establish disciplines on an array of trade distorting practices which have plagued and continue to plague worldwide steel trade. Clearly, subsidies to steel producers in other countries are a serious problem and make a significant contribution to the continued worldwide overcapacity. We need to have tighter disciplines on such practices: if an outright prohibition is achievable, all the better.

However, in Canada's view, such trade-distorting practices include more than just subsidies. A really substantive MSA needs to deal also with issues such as government procurement.

In conclusion, there seems little doubt that the steel industry is, and will continue to be, in the forefront of any consideration regarding the review of trade remedy laws. As one of the most significant users of such laws, not only in Canada but in the United States and Mexico as well, I urge you, the steel industries of North America, to keep an open mind on the promise of the fully open and integrated market envisaged by the NAFTA.

With the appropriate resolve, by both governments and industries alike, we have a real opportunity to create a freer and more dynamic trade agreement among our three countries, a trade agreement that will not only be the envy of the world but a catalyst to placing North American corporations, such as yours, at the forefront of global competition.

Thank you.