

Canada's New Steel Industry Key to Industrial Future: New Study

OTTAWA (May 31, 2010) -- A comprehensive new study of Canada's steel sector released today presents important new insights into the impact of the industry in Canada, and offers a fresh look at its future prospects in light of many recent changes in the global and Canadian steel industries. The Canadian Steel Producers Association (CSPA) commissioned the study by Dr Peter Warrian of the Munk Centre for International Studies, University of Toronto.

CSPA President Ron Watkins says this independent analysis by an acknowledged industry expert is very timely. "It improves public understanding of the new steel industry in Canada", he noted. "And we trust it will assist policymakers in all levels of government to understand the important role of the industry and its critical relationships with its customers and suppliers."

A major emphasis of the study is the steel industry's impact as a foundation for major advanced manufacturing clusters in Canada, such as autos, energy, and construction. The recent global and domestic transformation of the industry is another key theme, and the study examines at some length the implications for current operations and future investment.

The study outlines the development of the industry in Canada, and then turns to its importance as a vital industry for meeting the demands of the future economy. It describes the growth potential that will come from recovery in existing, and from new and innovative uses of steel in areas such as renewable energy sources, more fuel-efficient transportation, and construction applications.

The research describes an industry that is more innovative, highly-skilled, and environmentally efficient. "From an employment, value-added, knowledge intensive and environmental perspective, this is an industry Canadians should want in their future," Dr. Warrian states.

The study examines the impacts of the recent multi-billion dollar investments by global steel companies, bringing access to new sources of capital, technology, and expertise. For the industry to realize its full potential in Canada, the study concludes, it will require continuous investment in future. Supportive and balanced public policies are necessary in many areas that directly affect not only the steel industry, but the entire manufacturing industry in Canada. Watkins added that "CSPA looks forward to discussing the policy implications with governments and other stakeholders."

The report was commissioned by CSPA with funding support from the Canadian Steel Trade and Employment Congress and the United Steelworkers. A summary of key findings is attached. The full study and a summary of it can be accessed at www.canadiansteel.ca

About CSPA

The CSPA is the national voice of the steel industry in Canada. In 2008, the industry employed about 30 thousand Canadians with steel production in five provinces. Shipments were valued at approximately \$14 billion.

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The Importance of Steel Manufacturing to Canada – A Research Study

Key Findings

The Study

Dr. Peter Warrian, Senior Research Fellow, University of Toronto was commissioned to provide an independent analysis of the Canadian steel industry. It is the first comprehensive assessment following the many changes of the past several years, including a major transformation in ownership structure; the particular impact of China's enormous growth in global steelmaking; and the economic recession. Combining existing information and new research, the study examines the industry today and prospects for the future. Below are key findings from the research:

Why is the steel sector important to Canada?

Economic and Community Impact

- Source of well-paid employment; over 130,000 jobs direct and indirect jobs; major employer in many communities with significant economic impacts
- Produces approximately \$14 billion in sales and \$7 billion in exports.
- \$580 million in taxes and contributions of \$6 million to community and charities in 2008.

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- Dr. Peter Warrian,
Senior Research Fellow,
Munk Centre for International Studies,
University of Toronto

Foundation of industrial and technology clusters

- Industrial clusters have developed to minimize transportation costs and maximize collaboration, e.g. technology and integration of supply chain relationships.
- Steel is a core industry in multiple advanced manufacturing clusters, e.g. auto, energy
- Clusters are mutually dependent; a decline in steel has broader impacts in other industries
- Canada has a steel technology cluster of steel producers, customers, and suppliers. It comprises 106 firms nationally, largely in central Canada, with an additional cluster in Western Canada driven by the energy and resource sectors.
- The cluster employs more than 12,000 people with an average income of \$56,000.

Attracts global investment

- Globalization of steel industry brings access to managerial talent, technology, innovation and capital
- Canadian mills now compete internally within global enterprises for investment capital
- Multiple public policies are important factors in the investment environment

A knowledge-based industry

- Increasing demand for highly-skilled workforce
- Steel entered the "information economy" at an early stage
- New steel knowledge networks have surpassed the scope of individual company R&D

Where is the steel sector headed?

Growth in demand

- Developing economies, especially the BRIC (Brazil, Russia, India and China) will require much more steel; this affects global steel markets.
- Conventional markets for steel will grow as the economy emerges from the recession. This includes growth in automotive, energy and other natural resources, and construction.
- Modern auto steels have potential in other manufacturing; could increase steel demand by 5 %.

- Renewable energy sources including wind and solar power require steel towers and frames.
- Construction may become a much more important market for steel in the coming decade. In 2008, the auto industry accounted for 14-15 million tonnes of steel consumption in North America. The construction industry accounted for 20 million tonnes
- Some observers feel the construction market for flat-rolled steel could result in a 20% market growth over time, equal to the current auto share.
- The market for all types of steel is increasing globalized. The trend for Canadian industry is to shift to higher value-added segments of the market.

Environmental sustainability

- Steel manufacturing is sustainable manufacturing. Canada's steel industry has more than matched Kyoto targets for reducing greenhouse gases (GHGs).
- New steel products are lighter, stronger – essential for a more sustainable economy and society, e.g. wind power, transportation fuel efficiency, durable construction
- Steel is an infinitely recyclable material, and the most recycled material globally. Steel recycling is a "remarkable" story, with positive impact on both waste management and air emissions
- Steel mills can be co-producers of energy as well as producers of steel products.

What actions will contribute to a sustainable and prosperous sector?

Investing in employee skills, technology and innovation

- The industry must continually invest in technology, innovation, and the development of an increasingly skilled workforce.
- Community colleges and universities have a key role in developing needed workforce skills
- Externally-oriented innovation can leverage the interface with customers rather than exclusively relying on indigenous technical development.

Research, public/private collaboration

- The new CANMET Materials Technology Laboratory in Hamilton presents new collaborative opportunities for the industry, universities, colleges and public laboratories. Similar opportunities should be considered for steel technologies required for western Canada's resource-based needs.
- The laws of thermodynamics and current technologies limit CO₂ efficiency. Major gains in the carbon footprint of steelmaking require fundamentally new technologies. The global steel industry is already engaged collaboratively in developing "breakthrough" technologies

International Steel Trade

- China's has almost half the world's steel production, and its excess capacity exceeds total North American production
- Subsidies, dumping, and other non-market behaviours by China are a risk to steel producers and their customers in North America and elsewhere. China's actual costs are substantially higher when the various forms of subsidy and other support are netted out
- A policy consequence is to reinforce the importance of anti-dumping and countervailing duties to address market distortions introduced by WTO-inconsistent practices.

Supportive Public Policies

- Public policies directly impact competitiveness and investment potential of manufacturing including steel. Key policies for steel include fiscal/monetary/social; productivity, innovation and skills; international trade; Canada-U.S.; infrastructure and logistics; environment; and energy