CSPA ACPA
Canadian Steel Producers Association
L'Association canadienne des producteurs d'acier

Canadian Steel Producers Association (CSPA)

Budget 2012

Submission to House of Commons Standing Committee on Finance (FINA)

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Executive Summary

Canada's steel industry is at the foundation of its manufacturing base, an integral part of industrial clusters and supply chains across a broad spectrum of industries such as the automotive, advanced manufacturing, energy, construction, and resource sectors. Strengthening the competitive conditions for all manufacturing is fundamental to the sustainable success of Canada's steel industry. Governments must emphasize policies, tax measures, programs and regulations that foster Canada's industrial competitiveness. By applying a "pro-manufacturing" lens to policy and program decisions, governments can strengthen Canadian manufacturers' ability to compete for markets and investment - thus creating and sustaining well-paid jobs – by further enabling the steel and other manufacturing sectors to innovate, improve productivity, and enhance their environmental performance.

The Committee has invited submissions proposing three priorities for federal Budget 2012. The Canadian Steel Producers Association (CSPA) recommends the following:

1. **Extend the two-year Accelerated Capital Cost Allowance (ACCA) for at least an additional five-year period, to strengthen Canada's industrial innovation and productivity performance. Making the ACCA a long-term, and ideally permanent measure, will better align fiscal policy with the investment decision-making and implementation cycles of manufacturers, and provide Canada an edge in attracting future investment that is vital to industrial competitiveness.**

2. **Strengthen the industrial applicability of the SR&ED tax credit through changes in scope and eligibility, with a streamlined submission and more predictable claims process. SR&ED credits should be fully refundable for all companies that perform qualifying R&D in Canada.**

3. **As the government proceeds with expenditure review, it must sustain the resources necessary for programs and activities important to strengthening Canada's manufacturing sector. Key examples are the Canda Border Services Agency (CBSA)'s enforcement of Canada's trade remedy laws, Sector Councils (HRSDC) to address industrial skills shortages, and funding for physical infrastructure to improve transportation system efficiencies and meet other societal needs.**

Introduction

The Canadian Steel Producers Association (CSPA) appreciates this opportunity to provide its advice to the Standing Committee during its pre-Budget consultations. CSPA is the national industry association for Canada's primary steel and steel pipe producers.

Canada's steel industry employs some 25,000 Canadians, supporting an additional 100,000 spin-off jobs, and generates between $12 and $14 billion in annual sales. With steel producing facilities in five provinces, and related operations in several others, Canada's steel producers are an essential national industry in the Canadian manufacturing sector. It is estimated that over 75% of all manufactured products contain steel.

The steel industry is integral to major Canadian industrial clusters, notably automotive, advanced manufacturing, energy, construction and natural resources. It is vital to Canadian and other supply chains, to supplier industries such as mining and transportation, and to the modern infrastructure on which Canada runs. Advanced steel technologies are essential to improved environmental performance, ranging from lighter, more fuel-efficient automobiles to new energy sources.

Given these extensive industrial interrelationships, CSPA calls for "pro-manufacturing" policies directed to strengthening the broader manufacturing base. Canada's manufacturers face intense pressure and relentless competition in the globalized economy, at home and abroad. These pressures are exacerbated by high exchange rates which make competing internationally more difficult for trade-exposed sectors like steel. To enable Canadian manufacturers to compete in the market today and for investment capital for the future, policies are required that will strengthen manufacturers' ability to innovate, improve productivity, and enhance environmental performance.

CSPA appreciates steps already taken in this direction, including scheduled corporate tax reductions and the extension of the Accelerated Capital Cost Allowance (ACCA) in Budget 2011. These are important commitments, but additional measures are needed especially given the continuing pressures from global competition, renewed global economic uncertainties, and Canada's exchange rate. Government must act further to encourage further industrial development and growth with pro-manufacturing policies that will help ensure the success of Canada's value-added sectors. In this context, CSPA respectfully submits these priorities to the Committee.

Recommendation

1. **Extend the two-year Accelerated Capital Cost Allowance (ACCA) for at least an additional five-year period, to strengthen Canada's industrial innovation and productivity performance. Making the ACCA a long-term, and ideally permanent measure, will better align fiscal policy with the investment decision-making and implementation cycles of manufacturers, and provide Canada an edge in attracting future investment that is vital to industrial competitiveness.**

The two-year extension of the ACCA in Budget 2011 was a positive and welcome measure. By accelerating the pace of new equipment write-offs, the ACCA increases the rate of return on investments via changes in project cash flow, thus making a substantial contribution to achieving corporate "hurdle rates" for new investment. However, the effectiveness of this provision is limited for major industries that operate in a multi-year investment planning cycle, competing directly or indirectly for incremental investment capital. A two-year time frame does not provide sufficient time to cover the lengthy period for companies to plan, develop, and implement major investments in advanced technologies and processes. A longer-term horizon for the ACCA would address this reality, and offer Canadian industry an advantage in competing for new investments.

From a public policy perspective, it is important to recognize two positive features of the ACCA proposal. First, it does not increase the total amount of tax depreciation on any given investment; its effect is to accelerate the timing of those write-offs. Any increase in total depreciation to be claimed would only arise as the ACCA attracts additional investment to Canadian manufacturing -- a desirable growth and productivity-enhancing objective that is shared by the government and industry. Second, a broadly-based ACCA avoids picking 'winner' and 'loser' sectors or firms; the benefits accrue to firms in any sector that undertakes new investments in Canadian productivity and industrial capacity.

<u>Recommendation</u>

2. Strengthen the industrial applicability of the SR&ED tax credit through changes in scope and eligibility, with a streamlined submission and more predictable claims process. SR&ED credits should be fully refundable for all companies that perform qualifying R&D in Canada.

The principal broadly-based policy tool available to incentivize private sector R&D is the Scientific Research & Experimental Development (SR&ED) tax credit. The SR&ED is currently under review by the Jenkins Panel that will soon report to the Minister of State for Science and Technology. In reviewing the Panel's findings, the government must implement changes to improve the effectiveness of the SR&ED in stimulating greater, market-oriented industrial R&D. Weaknesses in the administration of the SR&ED should be addressed in a manner that does not undermine this essential goal. The Standing Committee should reinforce this perspective in its own recommendations.

In its submission to the Jenkins Panel, the CSPA presented recommendations consistent with several principles. The SR&ED must:

- make a significant difference to the performing company;
- be competitive with competing jurisdictions for similar R&D;
- be sufficiently broad in scope to address a range of pre-commercial activities and related process improvements;
- be fully refundable to the performer, even in low tax/tax loss years;
- have a timely and efficient submission and claims process;
- be reasonably predictable to the claimant.

CSPA's submission to the Panel included more detailed commentary on these factors. CSPA would be pleased to provide such details to the Standing Committee.

Recently, the Canada Revenue Agency took steps that would actually narrow the scope of the SR&ED program. These changes run counter to the principles above. Substantive changes to the SR&ED should only follow the completion of the Jenkins Panel and a full review of its final recommendations by the government, including the advice of this Committee and of industry stakeholders directly affected.

Recommendation

3. As the government proceeds with expenditure review, it must sustain the resources necessary for programs and activities important to strengthening Canada's manufacturing sector. Key examples are Canda Border Services Agency (CBSA)'s enforcement of Canada's trade remedy laws, Sector Councils (HRSDC) to address industrial skills shortages, and funding for physical infrastructure to improve transportation system efficiencies and meet other societal needs.

As the government moves to reduce spending, it is important that the process and outcomes sustain resources for programs and activities that are especially important to the health of Canadian manufacturing. Applying this perspective to the review of expenditure programs is an essential element of a "pro-manufacturing" policy stance. From a steel industry standpoint, three such programs and functions are:

- *Canadian Border Security Agency (CBSA) – Trade Remedies Enforcement*

As an open trading nation, Canada must send a strong message that it will enforce the trade remedy laws to ensure market-based competition. Globally, the steel industry is particularly fraught with structural imbalances and overcapacity, in large part because of foreign governments' policies offering multiple forms of non-market support including direct and indirect subsidies, state-assisted financing, state ownership and restrictions on key raw materials exports. This is especially important in the case of China, which accounts for about one half of global steel production. China employs a wide range of measures that have been frequently and successfully challenged under the WTO rules by Canada, the U.S., the E.U. and other countries.

Subsidized or dumped imports displace domestic production and high-value jobs. Failure to counter such practices effectively will also reduce Canada's investment attractiveness. The CBSA has a critical responsibility in the enforcement of Canada's trade remedy laws, requiring extensive investigation and due process that can lead to the application of antidumping and countervailing duties. Increasingly, it must also guard against customs fraud and circumvention. CBSA requires the resources necessary to perform these essential roles, so that Canadian industry can compete on a fair basis to generate to Canadian jobs, revenue, and economic growth.

- *Sector Councils (HRSDC)*

Industry faces the dual challenge to replace retirees from the existing work force, and to develop an increasingly-skilled workforce capable of meeting the sophisticated needs of advanced manufacturing. The Canadian Steel Trade and Employment Congress (CSTEC), a Sector Council co-led by the industry and the United Steel Workers, recently completed a major study indicating that the broader Canadian steel industry will need upwards of 10,000 new killed tradespersons, and as many as 29,000 new workers overall.

CSTEC has played an important role over many years in helping to bolster human resources planning at the sector level, and developing collaborative training initiatives. Recent funding decisions will require significant changes to CSTEC's operations. It is important that any adjustments to the Sector Council program be implemented in a manner that sustains important initiatives that serve the needs of industry, without imposing additional training development costs on industry.

- *Infrastructure Spending*

Moving Canadian goods to domestic and global markets requires world-class infrastructure and competitive transportation systems. An updated, modern system of infrastructure is also environmentally beneficial. Other forms of public infrastructure, such as water systems, fill important societal needs. Strong, sustained investments to renew and expand Canada's infrastructure are important to its economic performance.

Over half of Canada's infrastructure is more than 40 years old and the country's infrastructure gap was estimated to exceed $200 billion some five years ago. The federal government has made important multi-year commitments to help address this gap, incluiding revenue-sharing commitments to municipalities. Direct and cost-shared infrastructure support must be maintained to help address the clear need for major investments in roads, bridges, energy grids, ports, municipal and other infrastructure.

Conclusion

The Canadian steel industry is an integral part of the Canadian economy. The performance of the broader manufacturing sector and Canada's steel industry are strongly intertwined: steel is the root of the industrial tree, an integral part of major industrial clusters and supply chains, and a major customer for supplier industries. Public policies to support a stronger industrial base are essential to Canadian steel jobs and growth.

Canadian steel producers seek budgetary policies that will enable the industry and its customers to compete globally for markets and investments. CSPA advocates a "pro-manufacturing" agenda of tax and expenditure measures that will strengthen competitive conditions for manufacturers. Such an agenda is essential to attract investment, employ Canadians in high value jobs, and create more value-added industry now and well into the future. CSPA is pleased to present these recommendations on specific measures that the Committee should recommend to advance Canada's industrial performance in a fiscally responsible manner.