

Standing Committee on Finance (FINA)

Pre-budget consultations 2012

Canadian Steel Producers Association (CSPA)

Responses

1. Economic Recovery and Growth

Given the current climate of federal and global fiscal restraint, what specific federal measures do you feel are needed for a sustained economic recovery and enhanced economic growth in Canada?

The starting point must always be sound macroeconomic fundamentals – supportive fiscal and monetary policies to foster investment and productivity growth. In general, CSPA supports the commitment to eliminating the deficit and reducing expenditures on lower-value programs that are no longer needed or having their intended impact. It is important, however, to retain effective programs and tax measures that support industrial innovation and enable effective administration of important policies that benefit Canadian manufacturing, the driver of much economic and employment strength in Canada. Therefore, as the government proceeds with continuous review of its activities and functions, it must make manufacturing competitiveness a top priority in balancing policy interests. This strategic “acid test” should apply to any new policy measures, and to further program and expenditure reductions. CSPA urges the federal government to undertake a comprehensive assessment of the impact of current and planned policy and regulatory initiatives on manufacturing competitiveness over the short and longer terms. The government must also continue its support for market-based exchange rates. The Canadian dollar responds to market forces, but China and some other foreign competitors manage their currencies to create artificial competitive advantage for their manufacturers. Canada must continue to act in concert with other countries to press for market-based currency valuations that reflect underlying economic fundamentals.

2. Job Creation

As Canadian companies face pressures resulting from such factors as uncertainty about the U.S. economic recovery, a sovereign debt crisis in Europe, and competition from a number of developed and developing countries, what specific federal actions do you believe should be taken to promote job creation in Canada, including that which occurs as a result of enhanced internal and international trade?

Canada’s economic success and jobs depend heavily on international trade and on attracting future investment. The steel industry and its supply chain partners compete against the world on market-based principles and agreed international trade rules. The government has committed to an ambitious free trade/economic partnership agenda. Agreements leading to net economic benefit to Canadian industry can create high-value jobs if they address both sides of the free trade coin. First, FTAs and other agreements must be based on established international trade rules, reciprocal and verifiable market access, and the enforceable elimination of tariff and non-tariff barriers facing Canadian manufacturing. Canada’s forthcoming participation in the Trans-Pacific Partnership (TPP) negotiations offers further opportunity to advance market access and rules-based trade in this growing region. Second, it is vital to ensure that countries benefiting from Canada’s open markets must respect agreed rules of international commerce. The government must ensure that Canada’s trade remedy laws are effectively enforced to assure market-based trade, by countering the market distorting effects of dumped and subsidized imports. In addition, effective trade remedy laws and enforcement are important to creating supportive investment conditions in Canada. This requires continued strong policy support and the necessary government investigative resources to address unfairly traded imports that

injure industry and cost jobs and threaten future investment in Canada. These risks are clearly evident in the steel industry, which is fraught globally with structural imbalances, state support, and overcapacity leading to product dumping. This is especially so with respect to China, a non-market economy offering a wide range of state support for its steel and related industries, including the significant role of state-owned and controlled enterprises (SOEs). In Budget 2012, the government introduced changes to the administration of Canada's trade remedy system, through consolidation of the investigative resources of the Canada Border Services Agency and the adjudicative functions of the Canadian International Trade Tribunal. While introduced for efficiency reasons, the implementation of these changes must maintain essential features of the current system to ensure policy and administrative continuity due to the direct impact on Canadian production and jobs.

3. Demographic Change

What specific federal measures do you think should be implemented to help the country address the consequences of, and challenges associated with, the aging of the Canadian population and of skills shortages?

The breadth and complexity of talent needed for modern manufacturing is widely underappreciated. As the workforce ages, a new generation of highly skilled industrial workers must be attracted to the steel and other manufacturing sectors. The federal government can play an important role in addressing the looming shortages of skilled workers through a range of actions in concert with industry, universities, community colleges, and research institutions. Immigration can play an important role in filling shortages in the Canadian workforce. CSPA welcomes recent measures to improve the alignment of Canada's immigration system with labour market needs, e.g. making it easier for certain classes of workers to immigrate and providing companies facing a skilled labour crunch with a larger role in selecting immigrants from a pool of qualified would-be Canadians. Expediting the recruitment of skilled foreign workers is only part of the solution. The federal government should look to work more closely with the provinces and industry to promote modern manufacturing as a career choice for today's youth. Labour market information and skills development programs must be continuously evaluated and expanded as required to ensure they serve to attract more skilled men and women to the future requirements of the Canada's manufacturing industries, including steel. Attracting new people to industry is essential, but policies are also needed to support expansion of the skills of the current industrial workforce. Through targeted fiscal measures the federal government, working with the provinces and territories, can partner with industry to co-invest in upgrading the existing industrial workforce through continuous learning in using new manufacturing technologies and production techniques. A new training tax credit would strengthen productivity and innovation while helping to address the critical challenges of workforce retention and skills retention.

4. Productivity

With labour market challenges arising in part as a result of the aging of Canada's population and an ongoing focus on the actions needed for competitiveness, what specific federal initiatives are needed in order to increase productivity in Canada?

Support for innovation is a core element of a competitive business environment to attract international investment capital to Canada. Governments can play an important role in sharing the risks inherent in business R&D through tax measures or direct government funding. Canadian governments have historically invested heavily in specific parts of the innovation process. For established industries such as steelmaking, however, many current innovation programs have limited applicability, and are insufficiently aligned with more immediate market-based pressures they face. One key measure to strengthen industrial innovation is the Accelerated Capital Cost Allowance (ACCA) for manufacturing equipment. This measure is set to expire in 2013, yet the need to re-invest in industrial efficiency and

technologies is more critical than ever in meeting foreign competition. To provide further incentive and certainty to investment decision-making that favours Canada, the government should extend the ACCA for at least five additional years. This would provide an assured fiscal horizon to plan, develop, and implement major investments in advanced technologies, more efficient manufacturing, and environmental technologies. It will also help Canada ‘win’ against other jurisdictions that employ similar tax-based incentives for their companies. The cost to the government in deferred tax revenue would be offset by taxes earned on the new wealth generated through increased Canadian industrial competitiveness. A second key measure to foster industrial innovation is the Scientific Research and Experimental Development (SR&ED) tax credit. Budget 2012 proposed significant changes to the SR&ED system. While aiming to improve the SR&ED for SMEs, certain changes would reduce its value or applicability to larger enterprises such as steel producers. A reassessment of these proposed changes is required to address the situation of larger enterprises. There are two broad courses of action to consider. First, the SR&ED as it applies to larger enterprises should be modified, particularly to address the eligible cost base changes and to make it a fully refundable tax credit. Second, as an alternative, the government could offer more direct program support to achieve similar objectives. The merits of each, and particular design criteria, need to be assessed in collaboration with affected industry sectors.

5. Other Challenges

With some Canadian individuals, businesses and communities facing particular challenges at this time, in your view, who is facing the most challenges, what are the challenges that are being faced and what specific federal actions are needed to address these challenges?

One of the challenges in Canada is the uneven distribution of economic opportunity across regions, and among large and smaller communities. One way to create broadly-based opportunities is to revitalize Canada’s physical infrastructure, with direct and indirect economic benefits to Canadians in all areas. Economic analysis shows a direct correlation among infrastructure investments, economic growth, job creation and environmental stewardship. Such investments improve the economic well-being of communities and the quality of everyday life. Some estimates suggest that Canada has an infrastructure “deficit” of at least \$200 billion for projects including roads, bridges, ports and railways. Municipalities in particular need to renew essential services, such as water and sewage systems. Recent stimulus spending provided a limited, short-term boost but was insufficient to address Canada’s aging infrastructure, nor projects necessary for future economic growth. Addressing critical physical infrastructure needs requires strong, multi-year funding commitments and coordination by all three levels of government. Given the financial pressures on governments, more extensive use of public-private partnerships (P3’s) should be considered. A robust energy sector offers further, significant economic opportunity. When Canadian industrial energy costs are significantly higher than in other countries, Canada’s goods producing sectors are placed at a significant competitive disadvantage. Developing Canada’s varied energy resources and associated distribution systems (pipelines, electricity grid) benefits domestic consumers and businesses, and creates both domestic and export economic opportunities. The development of competitive, reliable, and secure sources of energy from conventional and new sources will contribute to economic growth in all regions of Canada. Canada’s borders must be both efficient and secure to enhance the prosperity, security and quality of life of Canadians. Under the “Perimeter Security and Economic Competitiveness” initiative Canada and the United States committed to actions to decongest the border, in order to expedite the crossing of goods and travellers. It is critical that the pace of new border investments such as the installation of new technology at the Peace and Queenstown-Lewiston Bridges be accelerated where possible.