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

House of Commons Standing Committee on Finance (FINA)

Pre-budget Consultations

Submission from Canadian Steel Producers Association (CSPA)

The Canadian Steel Producers Association (CSPA) is pleased to present its recommendations for measures to be included in Budget 2015. CSPA is the national industry association for Canada's primary steel and steel pipe producing industry. CSPA members operate steel and steel product facilities in eight provinces across the country, with some 20 thousand employees and annual shipments of $12-14 billion.

Steel is an important industry in its own right, but it is also an integral part of the supply chain for major Canadian industrial sectors, notably automotive, energy and construction. These supply chain relationships amplify the importance of public policies that will strengthen the competitive and investment prospects of the steel industry, and of its major customer industries.

CSPA'S Public Policy Agenda incorporates three core tenets:

- An overarching need for 'pro-manufacturing policies to improve the growth and investment prospects of Canada's industrial sectors;
- The importance of market and rules-based trade, to provide Canadian industry a fair opportunity to compete at home and abroad;
- The critical importance of attracting investment to Canadian industry, in a globalized world where jurisdictions as well as companies must compete for production and innovation mandates.

The specific recommendations that CSPA makes for Budget 2015 address specific high-priority policy interests in these areas.

Recommendation 1:
A Long-Term Capital Cost Allowance System that Provides an Incentive for Investment in Machinery, Equipment and Innovation

Investing in new machinery and equipment is at the heart of the need for industry to innovate in new products and processes, increase productivity, and reduce unit costs – in short, to compete in global as well as domestic markets. Fiscal policy geared to innovation and investment attraction is and must remain a major contributor to Canada's industrial performance.

CSPA and a broad spectrum of manufacturing sectors (the Canadian Manufacturing Coalition), have consistently advocated continuation of the current Accelerated Capital

Cost Allowance (ACCA), which enables a two-year write off of qualifying investments. The ACCA has been in place since 2007, through as series of sequential renewals of 2-3 year terms; it is due to expire in 2015. The ACCA provisions have had a positive effect on the rate of manufacturing investment and innovation, but the short time horizon of each renewal period has impaired planning for longer-term, major investments especially for large, capital-intense industries such as steel production, for which the project planning and implementation cycle can extend over several years. Also, the ACCA has been important to maintaining jurisdictional investment competitiveness with the U.S., which is often the primary alternative to investing in Canada. With the ACCA facing another deadline in 2015, it is imperative that Budget 2015 include a strong, pro-investment CCA structure providing long-term certainty to Canadian industry.

CSPA has consistently advocated that the current ACCA provisions be made permanent. That remains CSPA's recommendation. If the ACCA cannot be extended for the long term in its current form, it is crucial that any new system set a depreciation rate that reflects the rapid pace of technological change on the one hand, and the fierce competition for global investment on the other; and that it provide long-term predictability as to the tax treatment of such investments.

Recommendation 2:

Implement Changes to Canadian Trade Policies and Practices to Provide Fair and Reciprocal Domestic Market Competition

The government's ambitious trade liberalization agenda seeks greater market access for Canadian firms to offshore markets in accordance with international trade rules. CSPA supports these efforts, which in turn have secondary benefits for domestic suppliers including the steel industry. An important corollary of pursuing greater market access abroad, however, is to ensure that rules-based and reciprocal market access opportunities prevail in Canada itself. Budget 2015 can provide needed policy and financial direction in two particular areas.

<u>a) Improve the Ability of Canada's Trade Remedy System to Counter the Trade-Distorting Effects of Dumped and Subsidized Imports</u>

Canada's pursuit of trade liberalization must be complemented by a strong and effective trade remedy system, an essential, WTO-based safety valve against the injurious consequences of dumped and subsidized imports into Canada. Otherwise, such imports will have detrimental impacts on growth, investment, and jobs for Canadians.

The global steel industry is especially fraught with massive excess capacity, much of it founded on direct and indirect state support including the role of state-owned enterprises. China's steel production alone is about 50 percent of global production, with strong state support. For Canada's steel producers, many forms of illegal foreign trade practices drive prices to below-market levels, displacing domestic production, jobs and investment with secondary impacts on supply chain partners across Canada.

Faced with such unfair import competition, Canadian producers can seek relief through the trade remedy system which, following due process, may establish antidumping and countervailing duties on market-distorting (unfairly traded) imports. The duties work to restore market-based trade, a tenet of Canadian trade and domestic commercial policy.

Canada's trade remedy system involves the Canadian International Trade Tribunal (CITT), the Canada Border Services Agency (CBSA), the Administrative Tribunals Support Services Canada (ATSSC), Finance and International Trade. Although Canada's system is well-respected by importers and domestic producers, several parts of the process need to be updated and upgraded to meet growing surges in dumped and subsidized imports, and the growth of illegitimate practices abroad specifically intended to circumvent Canadian trade rules.

Many of the desired changes can be implemented via procedural and administrative improvements, but in some important areas, CBSA and others will need to re-allocate internal resources to meet current needs. Budget 2015 can provide important policy and financial direction by incorporating:

- Policy direction to ensure that the relevant agencies allocate sufficient internal resources to investigate, adjudicate, and enforce trade remedy laws;
- A commitment to work with domestic industry to review how trade case administration and procedures can be improved to strengthen the ability of domestic industry, including SMEs, to access the trade remedy system;
- New legal authorities as necessary to establish financial penalties or other sanctions for parties that deliberately work to avoid the legal disciplines of Canada's trade laws, including wilful falsification of import data.

b) Strengthen Canadian Participation in Government Procurement Markets

Government procurement is a major industrial opportunity for sectors such as steel, cement, and other products. A wide range of products made in many communities can benefit from both domestic and export market opportunity, if domestic producers are able to compete on a fair and reciprocal basis.

For Canadian producers, there is currently a negative asymmetry in market access. Within Canada, there are relatively few direct preferences or exclusions in the government bidding processes (outside traditional excluded areas such as national defence). But in many other countries there are broader (not always formal) procurement conditions that favour domestic industries, also enabling the development of expertise and technologies, which are more easily exported to Canada. Such restrictions can also lead Canadian firms to invest abroad, to access such procurement opportunities, thus reducing the broader benefits of Canada's trade liberalization agenda.

Even though steel is particularly impacted by foreign government 'buy local' requirements, CSPA does not advocate a strict Buy Canada policy. Rather, Canada should seek the same principles of reciprocity in government procurement that it does for commercial markets, i.e. that trading partners should offer each other's firms substantially reciprocal procurement market access. Where such access cannot be negotiated and assured, however, Canadian governments should be prepared to limit access in government procurement to countries offering reciprocal access to Canada.

In the context of Budget 2015, CSPA recommends that the government:

- Commit to complementing its free trade agenda with a strong focus on addressing barriers to reciprocal access to government procurement markets;
- Continue to negotiate increased reciprocal access with the United States, in the context of current multinational or bilateral trade negotiations;
- Develop new conditions for federal infrastructure spending based on reciprocal market access principles, for direct federal projects and for projects supported with Building Canada or other funds;
- Consistent with recommendation 2(a) above, ensure that Canada's trade remedy can address the use of dumped or subsidized imports when foreign firms compete for publicly-funded projects in Canada.

Recommendation 3
Enhance Fiscal and Program Support Measures to Strengthen Domestic Supply Chain Relationships in Major Canadian Industries

Industrial growth is fuelled by business capital investments, particularly those that spur innovation in technologies, products and processes to meet specific needs of the commercial marketplace. For Canadian industrial enterprises, particularly those competing for investment and technology mandates within multinational enterprises, government fiscal and program measures can position Canadian industry better to attract innovation-oriented investments to Canada.

For steel and several other industries, the import and impact of industrial innovation goes well beyond the needs of, and benefits to, the specific industrial sector. Steel especially is an integral part of major industrial supply chains in Canada, notably in the automotive and energy sectors, which are large steel consuming industries. Both present opportunities for greater Canadian industrial participation through new technologies and innovative products to meet increasingly complex and technologically advanced requirements. Moreover, innovation to meet demanding Canadian customer needs builds Canadian industrial competence to serve export markets. Further, policies and programs that would strengthen the ability of Canadian producers to meet supply chain exigencies in these two geographically-concentrated sectors will have magnified impacts across the country.

In support of these goals, CSPA recommends two measures for Budget 2015:

<u>a) Enable Access to Unused SR&ED Credits to Expand Investment in Innovation</u>

A primary fiscal measure to support business innovation is the Scientific Research and Experimental Development (SR&ED) tax credit. As observed in our Budget 2014 submission, recent changes to the SR&ED tax credit reduced support for larger, capital-intense industries including steel production. As is also recommended by the Canadian Manufacturing Coalition, CSPA recommends that Budget 2015 can provide more direct funding for business R&D by allowing companies, especially larger enterprises, to monetize unused SR&ED credits (currently totaling some $10 billion). This would apply to new R&D projects, such as upgrading existing R&D facilities, building new R&D facilities, or the acquisition of machinery and equipment to support such work.

b) Strengthen Key/Strategic Canadian Supply Chain Capabilities

Particularly with the SR&ED having more limited applicability than previously, Budget 2015 should include expanded program support for industrial innovation in support of the development of supply chain capabilities in Canada. There is significant and very timely opportunity to expand Canadian participation in these key supply chains, and increase Canadian economic activity and jobs in all regions of Canada, not just where major end-use sectors are concentrated.

The government's commitment in the Budget 2014 to invest an additional $500 million in the Automotive Innovation Fund over two years was a significant, positive move since the automotive sector represents one-third of the market for Canadian steel products. The Canadian energy sector presents a comparable major opportunity, also requiring industrial innovation to meet the unique and challenging needs of Canadian energy development. CSPA thus recommends the creation of an Innovation Fund that would provide program support for industrial innovation, with applicability to investments in new or expanded operations and upgrading advanced technology processes and equipment. Such a Fund could also support the attraction of investment and R&D mandates, resulting in more cross-Canada benefits from the future growth in major Canadian end-use sectors, notably automotive, energy/natural resources, and construction.

SUMMARY

CSPA's Budget 2015 recommendations are structured in support of a 'pro-manufacturing' agenda to generate new industrial growth. Through the recommended measures, the government can:

- Provide greater investment certainty and positive incentives for capital investments to improve productivity and innovation in Canadian industry;
- Build on the benefits of a pro-trade agenda by strengthening domestic conditions of competition, through improvements to the trade remedy system and reciprocity-based government procurement policies;
- Partner with Canadian industry in new product and process innovation and technology development, thus helping Canada's manufacturing sectors meet the demanding requirements of major Canadian industry supply chains, most notably in the automotive, energy, and construction sectors.