



CANADIAN STEEL PRODUCERS ASSOCIATION (CSPA)

PUBLIC POLICY AGENDA 2010

The CSPA is the national voice of Canada's steel, and steel pipe and tube industry. A primary goal of CSPA is to work with governments to improve the public policy environment for the success of Canada's steel industry, its customers, and its supply chain partners. This Agenda sets out CSPA's policy priorities for 2010 in five key areas:

Pro-Manufacturing Policies: *A strong manufacturing sector adds value to our resources and creates good jobs for millions of Canadians. For Canada's continued success as an advanced industrial nation, governments must critically assess the competitiveness impact of major policies, tax measures, programs and regulations. A "pro-manufacturing" lens would identify changes to conditions for Canadian manufacturers to compete for markets and investment, including tax-based incentives to accelerate capital improvements.*

Innovation and Skills: *Policies and programs should be reoriented to place more emphasis on improved productivity, developing a highly skilled industrial workforce, and the development and application of new technologies and production techniques. Specific measures can support investment in workforce skills upgrading, more R&D, and collaborative research domestically and internationally. Research funding can better target the needs of advanced industrial sectors, to help strengthen innovation and productivity in Canadian industry.*

International Business: *Canada needs to continue to seek improved foreign market access for Canadian manufacturers, while simultaneously ensuring market-based competition at home. This means firmly enforcing the negotiated rules of international trade with all major trading countries, notably China, and reinforcing those rules in future trade negotiations. More broadly, China is an ever-growing force in global commerce; this calls for a more comprehensive, balanced approach to bilateral commercial relations. Within NAFTA, renewed efforts are required to address impediments to internal commerce, to strengthen the region's ability to compete with offshore competitors.*

Environment: *Climate change policies must incorporate several key principles for energy-intensive, trade-exposed sectors like steel including: comparable commitments by all major emitters globally; compatibility with forthcoming U.S. regulations; measures to avoid "carbon leakage"; and recognition of short-term technological constraints. For both climate change and air quality regulations, coordinated federal-provincial approaches are needed to avoid costly duplication and compliance burdens. Governments should also build on CSPA's commitment to responsible steel recycling by applying "zero mercury" requirements to scrap steel exports.*

Infrastructure and Transportation: *To move Canadian goods to domestic and global markets requires world-class infrastructure and competitive transportation systems. Better infrastructure also brings environmental benefits. Canada has a large infrastructure "gap", requiring all levels of government to invest strongly in rebuilding our roads, bridges, ports, rail and other public infrastructure. In doing so, public projects should not pre-specify or give preference to particular building materials. For transportation, governments need to ensure that new regulations do not render domestic shipping services uneconomical.*

INTRODUCTION

For over a century, Canada's steel industry has been a significant force in the nation's economy and fabric, a major employer, and an important contributor to multiple communities across the country. Canada's steel and steel tubular products industry employs some 30 thousand Canadians, generating annual shipments of approximately \$14 billion, including about \$7 billion in exports. With a highly-skilled workforce and commitment to the future, Canada's steel industry is positioned to serve the continuing and ever-changing economic and social needs of Canadians in every walk of life. Steel will continue to be a vital industry in Canada, and globally, because:

- a) Global and domestic economic growth is steel-dependent. Steel is the root of the industrial tree, and there is a direct relationship between economic growth and steel use. As North American and global economies continue to expand, so too will the demand for steel.*
- b) Many of the innovations needed in the future and greener economy will depend on steel, including new types of steels yet to be developed. Examples include alternate and conventional energy, more fuel efficient vehicles, enhanced infrastructure, more sustainable construction, and improved recycling. Steel contributes to a greener society, while also continuing to reduce its own environmental footprint. Canadian steel has a long and proud history, but it is also an industry of the future.*
- c) Canadian steel producers compete in the most open steel markets in the world. Public policies can reinforce competition in the marketplace, and can create the conditions to secure the investment capital needed to sustain future growth within a globally-transformed industry.*

Canada's steel future will be written by many forces, beginning with the industry's own commitment to investing in highly-skilled people, advanced technologies, continuous environmental improvement, and operational efficiency. The sustainable success of Canada's steel industry also depends on a wide range of public policies.

In this Public Policy Agenda for 2010, the CSPA sets out additional actions that governments in Canada can take to strengthen the competitive conditions for steel producers, their customers, and their supply chain partners. CSPA seeks to work with governments and other stakeholders to advance these policies, so that steel will continue to make Canada stronger.

Canadian Steel Producers Association

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“PRO-MANUFACTURING” POLICIES

ISSUE

Recent years have witnessed much attention to the “post-industrial” or “new” economy, built on “high tech” and service industries. This focus has too often overlooked the continuing importance of value-added industry in creating Canada’s wealth, and providing good jobs to millions of Canadians across the country. Emerging industries will undoubtedly play an important role in the future, but they cannot replace the multiple contributions of competitive manufacturing. The recent economic crisis is a stark reminder of manufacturing’s importance now, and for the future.

Manufacturing adds value to the skills of our people and our heritage of natural resources. It helps Canada earn its way in the world. Manufacturing will provide much of the needed innovation and new products and technologies for a greener, more efficient, more productive economy and society. The critical role of manufacturing calls for a renewed focus on policies to strengthen Canadian industrial competitiveness for domestic and export markets.

STATUS

Canada’s manufacturers face intense pressure and relentless competition in the globalized economy, at home and abroad. Cost pressures, exacerbated by a higher exchange rate, place a premium on policies that will strengthen manufacturing productivity.

Multiple policies, programs, and regulatory actions of governments directly impact competitive conditions for manufacturers. While many measures are intended to serve other policy interests, their design and implementation bear directly on industrial competitiveness. As governments consider new measures in a broad range of policy domains, it is important to take a critical look at the impact on Canada’s value-added sectors. A “pro-manufacturing” agenda would apply an acid test of industrial competitiveness to proposed new policies and regulations. The same test needs to be applied to forthcoming expenditure reductions as governments move to reduce large budgetary deficits through expenditure reductions or tax changes.

The starting point is macroeconomics – fiscal, monetary, and exchange rates policies. Governments have made important commitments to scheduled tax rate reduction and sales tax harmonization. These must be maintained. On exchange rates, the Canadian dollar responds to market forces. But some other currencies do not. It is well-accepted that China artificially undervalues its currency to help maintain large trade surpluses. Canada must act in concert with others to press for currency valuations based on underlying economic conditions.

Beyond macroeconomic factors, the scope of expenditure, regulatory and framework policies affecting industrial competitiveness is extensive. Especially given the impacts of the economic crisis and the upward pressure on the Canadian dollar, it is timely to re-assess the impact of current and planned measures for the near term, and over the medium term.

PRIORITIES FOR ACTION

1. Governments need to make manufacturing competitiveness a top priority in balancing policy interests. This strategic “acid test” should apply to any new government policy measures, and to forthcoming expenditure reductions so as not to undercut support for industrial innovation, skills development, and essential physical and technological infrastructure.
2. The two-year Accelerated Capital Cost Allowance (ACCA) is a positive measure, but is limited in its duration and scheduled to expire in 2011. This measure must be extended for a minimum of five additional years, to provide industry with an assured fiscal horizon to plan, develop, and implement major investments in advanced technologies, more efficient processes, and environmental technologies.
3. Looking to the medium and longer term, governments should launch a comprehensive evaluation of the impact of their major government policies on Canadian industrial competitiveness. Ministers of Industry/Economic Development should establish a blue-ribbon panel to develop recommendations on policies to strengthen industrial prospects for the medium-term. This review would cover all major dimensions of government policy affecting manufacturing, and develop specific recommended actions for action by governments, industry, and other stakeholders.

INNOVATION AND SKILLS

ISSUE

Developed and developing countries alike understand the importance that advanced manufacturing plays in a healthy economy and global commerce. Faced with relentless competition from other countries, Canadian industry must continuously innovate across a broad spectrum – new technologies, new products, improved processes, and workforce skills -- to improve productivity and value-added performance.

Public policies to support industrial innovation include university funding, program and tax-based incentives for research and development (R&D), and research infrastructure. Innovation also demands skilled people for the increasingly complex requirements of modern advanced manufacturing, including steel and steel-based products. With competitor nations acting aggressively across the innovation spectrum, Canada must become more sharply oriented to continuous innovation and productivity improvement in all economic sectors.

STATUS

Canadian governments have invested heavily in parts of the innovation chain, including billions of dollars annually for university research and scholarships, research institutes, the furthering of scientific advances, and advanced information and communications technologies. For established industries such as steel, the suite of current policies is not sufficiently aligned with the more immediate pressures and needs.

One key measure to encourage industrial innovation is the Scientific Research and Experimental Development (SR&ED) tax credit. It is a positive and essential incentive for industrial innovation, but some features of the program and its implementation reduce its potential as an incentive to increase applied industrial R&D. A re-orientation of the SR&ED program could spur further industrial innovation to bolster Canada's productivity.

In the area of skills, the breadth and complexity of talent needed for modern manufacturing is often underappreciated. The strategic importance of a skilled and adaptable industrial workforce requires a long term commitment and action on multiple fronts. A new generation of highly skilled industrial workers must be developed and attracted to the manufacturing sector, through universities, community colleges, and research institutions. Immigration must also play a role. No less important is the need to help offset the costs to upgrade further the skills of the existing industrial workforce through continuous learning in new technologies and techniques.

In the area of R&D, government measures should aim to expand the potential for collaboration among industry, universities, colleges, and publicly-funded research organizations. In addition, the scope for collaboration needs to extend to international projects, such as the steel industry's global efforts to develop fundamentally new steel production technologies through the CO₂ "breakthrough" program of the World Steel Association) and other research initiatives.

PRIORITIES FOR ACTION

1. The SR&ED tax credit system needs to be adjusted to provide more incentive to industrial R&D performance. Its design and administration must become more premised on spurring industrial innovation, in terms of the range and scope of eligible activities, the predictability of claims, and a refundability provision for firms in low tax or tax loss years so that they can sustain necessary R&D commitments.
2. For the current workforce, a new training tax credit would assist with employer-funded skills upgrading; this would help to address the critical area of workforce retention. To help develop the workforce of the future, programs at the post-secondary level must be continuously evaluated to ensure they are developing the highly-skilled workforce needed for the future of steel and other advanced industries. This includes enhanced efforts to promote modern manufacturing as a career choice for today's youth.
3. The federal government must ensure strong, ongoing funding support for industry-oriented government research institutes, particularly a sustained commitment to the new CANMET research labs (Natural Resources Canada) in Hamilton, Ontario. A similar model needs to be examined to support research into new steel technologies important to other clusters of Canadian economic strength, e.g. energy.
4. Government R&D funding for clean energy development should support industrial applications in sectors like steel, to advance more environmentally sustainable processes. In addition, government should collaborate with steel and other industries to identify how new Canadian steel products can help build cleaner energy sources in Canada.
5. Innovation programs and tax measures need to enable greater Canadian participation in multinational research programs, particularly those directed to improve environmental performance. Domestically, criteria for programs to encourage energy efficiency and develop new environmental technologies must be broadened to ensure that industries such as steel are eligible, e.g. support for alternative energy sources or the development of carbon capture and storage technologies.

INTERNATIONAL BUSINESS

ISSUE

Canada's prosperity depends heavily on trade. The Canadian steel sector, its suppliers, and customers compete against the world at home and abroad. Trade policies play a critical role in competitiveness and investment conditions throughout the steel supply chain. The industry requires trade policies that improve international market access, counter market distortions from foreign subsidies and dumping, and reduce trade-related business costs. This is especially important in the post-recession context, in which the NAFTA region has moved from being a net importer of steel, to one where it could become a net exporter in a rules-based trade environment.

Strengthening efficiencies within NAFTA is an important trade dimension. Through increasing integration within the region, a stronger and more competitive steel supply chain improves NAFTA countries' collective and individual abilities to compete against overseas producers.

STATUS

Global steel trade is fraught with structural imbalances and significant overcapacity, due in large measure to foreign government policies that include direct and indirect subsidies, state ownership or control, state-assisted financing, and restrictions on exports of key raw materials. China -- a non-market economy -- produces almost half the world's steel with excess capacity that is twenty times the size of the Canadian steel market. This leads to a continuous pattern of subsidized and dumped steel and steel-based products entering global markets, displacing domestic products that are produced and traded on market principles.

In consequence, many countries have taken multiple trade actions to counter illegal subsidies and dumped imports. These measures, labelled trade remedy laws, exist under the rules of the World Trade Organization (WTO) to restore market-based trade conditions. In the steel sector, recent actions by Canada have been matched, and sometimes exceeded, by challenges to China's practices by the U.S., the European Union (E.U.), Mexico and others.

China has rapidly become the major force in global steel trade, and is now extending its reach into both upstream and downstream industries. At the same time, it presents potential new commercial opportunities for Canada. It is important that Canada develop a more consistent, comprehensive and balanced approach to bilateral commercial relations with China. This will require an extensive process of consultation with key stakeholders, including the steel industry.

Canadian access to the U.S. and other international markets requires further policy attention. The recent agreement on government procurement with the U.S. is an important step, with the promise of further negotiations. The collapse of the Doha round of WTO negotiations is placing stronger emphasis on bilateral free trade agreements (FTAs), including those being negotiated currently with the E.U. and India. It is vital that any negotiated agreement deliver the potential for net industrial benefits to Canada.

The confluence of environmental and trade policies has emerged as a major consideration in global climate change negotiations, and plans for related domestic regulations. A central trade and environment issue is “carbon leakage”, and with it, the need to address the trade and investment dimension for steel and other energy-intensive and trade-exposed (EITE) sectors.

PRIORITIES FOR ACTION

1. Canada’s international commerce policies must include strong enforcement of trade remedy laws to counter the market distortions caused by foreign subsidies, dumping and other non-market practices. While the government should seek to eliminate such market-distorting practices, it must be prepared to exercise its WTO rights fully, and to apply trade remedy laws to restore market-based competition across the steel supply chain. Effective trade remedy laws must remain a key tenet of new global trade negotiations, and be reinforced in bilateral free trade agreements (FTAs).
2. Market access negotiations, whether in the WTO or bilateral FTAs, must establish net industrial benefit for Canadian manufacturers in balancing Canada’s offensive and defensive interests. This includes enhanced market access in government procurement agreements, particularly with the U.S. and the E.U.
3. Given China’s large role in global commerce, especially in steel and steel-related industrial goods, the government must work to develop a stronger, mutually-beneficial economic relationship with this major industrial power. This may include new bilateral dialogues with China in key sectors. To advance this goal, the government should commit to an extensive and inclusive consultation process with key stakeholders.
4. Canada needs to build on the foundation established by NAFTA, and its shared border with the U.S., to achieve even greater economic efficiencies that will strengthen trade and investment relationships internally, in order to improve the region’s competitiveness vis-à-vis other trading partners. This includes collaborative initiatives and policies including cross-border trade and infrastructure, transportation systems, and environmental policies.
5. Climate change policies must address the trade and investment dimension, particularly with respect to the competitive pressures on EITE sectors.

ENVIRONMENT

ISSUE

Governments in Canada and elsewhere are developing new policies and regulations to reduce emissions of greenhouse gases (GHGs). Multiple policy approaches are under consideration. They include many variations with respect to targets, timelines, the manner in which mandated reductions will be achieved, and emissions trading and other compliance options.

GHG emissions are global in scope. Concurrent and comparable action is required by all major emitters to achieve significant reductions and to avoid carbon leakage. Domestically, Canadian climate change regulations must align closely with those of the U.S., in part to avoid competitive imbalances and the potential for new border measures. Further, governments in Canada must work together on a unified approach that avoids regulatory overlap and unnecessary costs to industry and taxpayers. Governments must also maintain incentives to improve energy efficiency as a further means to lower GHG emissions.

New or more stringent regulations for air pollutants are also being developed currently by the federal and provincial governments. A single, comprehensive approach to air quality management can avoid unnecessary duplication and compliance costs. An active multi-stakeholder process (federal and provincial governments, industry, environmental and health groups) has resulted in a framework to be proposed this year to Ministers of the Environment.

Recycling is an integral part of the steel industry's commitment to environmental performance. Some sources of steel scrap, such as older automobiles and appliances, used to contain mercury switches. Removing these sources from scrap is the best way to prevent emissions when scrap steel is remelted to make new steel. CSPA has committed to a "zero mercury" purchasing policy for scrap. Since steel scrap is also exported, CSPA is encouraging the government to extend the industry's environmental commitment by imposing a similar standard on Canadian scrap exports.

STATUS

The Canadian steel industry has already reduced its GHG emissions by almost 20 percent since 1990. Any new mandated reductions must recognize that further improvements will not be as easily attained and that new technologies are needed to achieve major additional reductions in GHG intensity. Such technologies will not be available commercially for many years.

At the December 2009 United Nations negotiations in Copenhagen, it was agreed that genuine progress requires shared actions globally by all major emitting nations, for environmental and economic reasons. The Canadian government has further recognized the importance of a high degree of compatibility with U.S. climate change regulations, including similar overall reduction targets. CSPA supports both positions, but seeks early and comprehensive consultations on how these principles will translate into a balanced set of domestic regulations, particularly for energy-intensive, trade-exposed (EITE) sectors including steel.

Many of the key inputs to steelmaking, such as energy, mining and transportation, will also be subject to new GHG regulations and costs. Such extra input costs cannot simply be added to the price of Canadian steel products, which compete in a global marketplace. Regulatory conditions must therefore make allowances for these indirect costs, to maintain competitive balance in North America and globally.

Within Canada, there is growing risk of an incompatible patchwork of climate change policies at the federal and provincial levels. Conflicting or inconsistent plans will add uncertainty and additional costs, and thereby adding investment risk for Canada. In addition, such an outcome would complicate Canada's positions internationally, and undermine the ability to realize policy and regulatory compatibility on a sectoral level between Canada and the U.S.

Regarding regulation of air pollutants, the comprehensive air quality plan being developed collaboratively by multiple stakeholders would deliver significant environmental and health benefits across Canada, while minimizing regulatory duplication wherever possible. Federal, provincial, and territorial Ministers of the Environment are scheduled to consider this framework in fall 2010. It is important that governments endorse this integrated approach.

With respect to mercury, the CSPA is co-funding a national, multi-year program ("Switch Out") to remove mercury switches from older automobiles prior to recycling. To date, over 175,000 switches have been removed. CSPA members are now going further, with a "zero mercury" policy for all sources of scrap that they use. However, this does not touch on exported scrap. CSPA encourages the government to determine how it could require the prior removal of mercury from Canadian scrap steel exports.

PRIORITIES FOR ACTION

1. Reinforce the need for all major emitter nations to act in a concurrent and compatible manner to reduce global GHGs at the sectoral level.
2. Ensure climate change policy compatibility between Canada and U.S. with comparable conditions for EITE sectors, direct and indirect carbon pricing and trading, and key regulatory features including baselines, compliance options, common reporting, and timing. Within Canada, these features must be incorporated into a single federal/provincial regime.
3. Programs to improve industrial energy efficiency must be maintained, and additional measures considered, as a further means to reduce GHG emissions.
4. In the fall of 2010, Ministers of the Environment must endorse the proposal for a single, coordinated approach to regulating air pollutants.
5. Building on CSPA's "zero mercury" policy, the government should develop an effective approach to prevent the export of Canadian steel scrap that contains mercury.

INFRASTRUCTURE AND TRANSPORTATION

ISSUE

Canadian industry requires high-quality infrastructure and competitive transportation systems for the delivery of competitively-priced inputs, and to deliver end products to markets in Canada and abroad. Economic analysis shows a direct correlation between investments in infrastructure, economic growth, and job creation. Better infrastructure also improves national environmental performance. To overcome too many years of underinvestment, Canada needs a sustained commitment to renew and expand its physical infrastructure, and to improving the quality of life in myriad ways, e.g. less congestion and better water systems.

Infrastructure spending needs to leverage maximum value for taxpayer dollars. This includes competitive choice among materials based on life cycle costs, quality, durability, and safety. Governments should not mandate artificial advantages for particular building products. Nor should governments allow the use of sub-standard imported materials that do not meet Canada's quality standards.

In addition to modern infrastructure, Canadian industry requires efficient and competitive transportation systems and logistics to enable it to compete within North America. Railways and Great Lakes shipping are particularly important to steel producers for economic and environmental reasons. Certain planned changes in transport regulations in the U.S. as well as Canada would add significant costs to Canadian shippers within Canada, and for shipments to the U.S. and other markets.

STATUS

Over half of Canada's infrastructure is more than 40 years old, and we have an estimated infrastructure "deficit" of at least \$200 billion for projects including roads, bridges, ports and railways. Addressing critical infrastructure needs will require strong, multi-year commitments by all three levels of government. Even faced with overall expenditure reduction efforts, governments must commit to addressing the "infrastructure deficit" and commit to increased multi-year investments to strengthen physical infrastructure, including border facilities. Given the financial pressures on governments, more extensive use of public-private partnerships (P3's) will be necessary.

The US recently introduced legislation for a Harbour Maintenance Act. This will ensure all monies collected from shippers via the Harbour Maintenance Trust Fund will be applied to the ongoing maintenance and upgrading of U.S. ports and harbours. Canada may need to consider similar mechanisms to assure dedicated funding for specific purposes.

Some recent regulations and proposed legislation at the federal level would specify that new public building projects should preferentially specify wood over other materials. This would disadvantage other materials including steel. This raises several issues: trading off steelworker jobs for those in other industries; overriding "best value" (technical, economic) selection of

materials for a particular use; potential issues of durability, safety and reliability; and trade policy implications. Government procurement rules should not override market-based and technical competition among materials. This position is shared by a coalition of several Canadian stakeholders.

On transportation, a number of recent U.S. shipping regulations that are intended to address certain environmental issues would have the unintended effect of strongly impairing Great Lakes shipping. Regulations that cannot be met technologically or economically would impair steel trade, and push steel and other shippers to use less environmentally sound transportation alternatives. Thus, new shipping regulations must fully consider the impacts on Canadian shipping companies and their industrial customers. Since the St. Lawrence Seaway system is a critical system for the steel industry (its largest user), the government must engage the appropriate authorities to address new regulations in the U.S. that would disrupt two-way commerce.

PRIORITIES FOR ACTION

1. Governments need to recommit to strong, sustained investments in infrastructure running well beyond current stimulus spending. Enhanced use of P3 approaches can leverage government capital funds. Special funds and other instruments should be examined as a means to assure dedicated funding for essential purposes.
2. Federal and provincial governments must not discriminate among building materials in specifying construction requirements. Public projects should be based on the best material for the job and value for money, and not on politically-determined criteria.
3. New transportation environmental regulations in Canada and the U.S. must be designed and implemented in a manner that does not impose unachievable standards nor add excessively to shipping costs. Where necessary, the government must seek changes in U.S. regulations that will materially affect Canadian shipping and cross-border trade.