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PUBLIC POLICY AGENDA 2012

CANADIAN STEEL PRODUCERS ASSOCIATION

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CANADIAN STEEL PRODUCERS ASSOCIATION (CSPA)

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The Canadian Steel Producers Association (CSPA) is the national voice of Canada's steel, and steel pipe and tube industries. CSPA seeks to work with governments to improve the public policy environment for the sustainable success of Canada's steel industry, its customers, and its supply chain partners. This Agenda sets out CSPA's public policy priorities.

Pro-Manufacturing Policies are the central theme of this Agenda. For Canada's continued success as an advanced industrial nation, governments must critically assess the impact on industrial competitiveness of major policies, tax measures, programs and regulations. By applying a "pro-manufacturing" lens to major policy decisions, including fiscal measures, governments can strengthen the ability of Canadian manufacturers, including the steel industry, to compete for markets and investment.

Within this policy umbrella, CSPA's policy priorities lie in five areas:

Innovation and Skills: *Innovation policies need to emphasize improved productivity, developing the skilled workers required for advanced manufacturing, and the development and application of new technologies and techniques. This includes measures to assist industry investment in skills upgrading, improving the R&D tax credit, and encouraging collaborative research domestically and internationally. Research programs can be reoriented to the needs of established as well as emerging industrial sectors.*

International Business: *CSPA supports negotiations to create stronger export market access for Canadian manufacturers, while simultaneously ensuring market-based competition at home through strict enforcement of trade remedy laws against illegal subsidies, dumping, and other market-distorting practices. Given China's exceptional role in global commerce, Canada needs a comprehensive, balanced approach to bilateral commercial relations. Within NAFTA, governments must address impediments to internal commerce, to improve efficiency and strengthen the region's ability to compete globally.*

Environment: *Air emissions regulations must recognize the competitive and technological constraints on steel as an energy-intense, trade-exposed sector. This entails achievable targets; comparable commitments by all major emitting countries; sectoral compatibility with U.S. measures; and provisions to address "carbon leakage". New air quality standards must incorporate realistic timelines for implementation. For both greenhouse gases and air pollutants, industry requires coordinated, balanced federal-provincial approaches to avoid costly duplication and compliance burdens.*

Energy: *Energy policies must address both the development of energy supplies and rising energy costs that have become a cost disadvantage for Canadian manufacturing. Energy supply for Canadian industrial users, and energy exports, can be increased through more timely development of conventional and newer sources and associated distribution networks for oil and gas, nuclear, electricity, and alternative sources including co-generation. Energy pricing policies must not place excessive cost or reliability burdens on large industrial users. Governments can partner with industry through energy efficiency programs and incentives to reduce demand on existing sources, including electricity grids.*

Infrastructure and Transportation: *All levels of government must invest strongly in new or rebuilt roads, railways, bridges, ports, urban infrastructure and border facilities. These and other publicly-funded projects should not pre-specify or give preference to particular building materials. To enhance the competitiveness of Canadian industry to serve both domestic and export markets, industry requires competitive, flexible, and dependable surface transportation services-- rail, truck, and marine.*

INTRODUCTION

For over a century, Canada's steel industry has been a significant force in the nation's economy, a major employer, and an important contributor to many communities across the country. Canada's steel and steel tubular products generate annual shipments of \$12-\$14 billion. With a highly-skilled workforce and a 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 to the economy and to Canada's future:

- ✓ *It employs some 25,000 Canadians in well-paid jobs in many communities in several provinces. Every direct job in steel leads to four spin-off jobs— that's roughly 100,000 jobs in Canada.*
- ✓ *It is an essential material for meeting many needs of Canadians – steel for cars, manufactured goods, energy, construction, and transportation.*
- ✓ *Steel is the root of the industrial tree. It is essential to major Canadian industrial clusters, making steel an integral component of Canada's manufacturing sector.*
- ✓ *Canadian steel producers have a proven record of environmental improvement and commitment to a more sustainable future*
- ✓ *Innovative steel products are essential to a greener economy, from lighter weight steel for more fuel efficient automobiles to wind turbines that require strong steel towers*
- ✓ *Steel companies are major local industries. Member companies and their employees make significant contributions to their local economy and communities.*

Canada's steel future will be shaped 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 Public Policy Agenda 2012, the Canadian Steel Producers Association(CSPA) sets out important issues and specific policy actions by which Canada's governments can strengthen the competitive conditions for steel producers, their customers, and their supply chain partners. CSPA seeks to work actively with governments and other stakeholders to advance sound and balanced public policies so that steel will continue to make Canada stronger.

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Visit Canada's steel industry at www.canadiansteel.ca

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THE IMPORTANCE OF “PRO-MANUFACTURING” POLICIES FOR CANADA

MANUFACTURING MATTERS TO CANADA

There has been much attention in recent years to the concept of a “post-industrial” or “new” economy built on “high tech” and service industries. Too often, this viewpoint overlooks the continuing vital importance of manufacturing in creating Canada’s wealth, thereby providing good jobs to millions of Canadians across the country. Emerging industries will play an important role in the future, but they cannot replace the multiple contributions of competitive manufacturing. This reality was driven home during the recent economic recession in Canada and globally, and many other countries are now implementing specific policies to stimulate the renewal of their industrial base.

Manufacturing creates value for Canada by combining the skills of our people and our heritage of natural resources. It helps Canada earn its way in the world. It is the manufacturing sector that provides innovative products and technologies for a greener, more efficient, more productive economy and society. Its impact goes well beyond its 13 percent direct contribution to Gross Domestic Product. Manufacturing is also the foundation and customer for many other technology and business service sectors that in turn employ millions of Canadians. The critical role of manufacturing calls for a renewed focus on policies to strengthen Canadian industrial competitiveness for greater success in domestic and export markets. Such policies are especially important as Canada seeks to compete against foreign jurisdictions for future investment capital.

CANADA NEEDS A STRONG MANUFACTURING POLICY AGENDA

Today, Canada’s manufacturers face intense pressure and relentless competition in the globalized economy, at home and abroad. Cost pressures, exacerbated by a high exchange rate, place a premium on policies that will strengthen manufacturing productivity and improve business and investment conditions for Canadian industry.

Multiple policies, programs, and regulatory actions of governments directly impact industrial competitiveness. Some of these policies are directly focused on the manufacturing sector. Many others that are primarily oriented to other purposes can also directly or indirectly impact Canada’s industrial competitiveness.

As federal and provincial governments consider policy and program changes, it is important that they take a critical look at the impacts of their decisions on Canada’s value-added sectors. A “pro-manufacturing” agenda would apply the acid test of strengthening industrial competitiveness to proposed new policies and regulations. It also requires applying this same test to fiscal policy changes, regulatory actions and expenditure reviews as governments work to address budgetary deficits.

The starting point is sound macroeconomic fundamentals – fiscal, monetary, and exchange rate policies. Governments have made important commitments to scheduled tax rate reductions and sales tax harmonization. These are especially important to Canada’s small and medium-sized (SME) manufacturers. On exchange rates, the Canadian dollar responds to market forces, but some major foreign competitors, including China, 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.

Beyond macroeconomic factors, the scope of expenditure, regulatory and framework policies affecting industrial competitiveness is extensive. It is timely to re-assess the impact on manufacturing of current and planned policy and regulatory for the short and longer terms.

MAKING MANUFACTURING A PRIORITY FOR GOVERNMENT POLICY

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 important programs and services for industrial innovation, skills development, trade rule enforcement, and essential physical and technological infrastructure.
2. The federal government’s Budget 2011 made an important contribution by reaffirming scheduled tax cuts and by extending the Accelerated Capital Cost Allowance (ACCA) for manufacturing equipment for an additional two-year period. The ACCA is a broadly-based measure that provides a direct incentive in all sectors for investment, innovation, and productivity improvement. To provide further incentive and certainty to investment decision-making that favours Canada, the ACCA should be further extended for at least five additional years. Especially for large industries like steel-making, this would provide 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, federal and provincial governments could launch a comprehensive evaluation of the impact of their major government policies and programs on Canadian industrial competitiveness. Ministers of Industry/Economic Development could 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 by governments, industry, and other stakeholders.
4. Canadian industry operates primarily in a NAFTA context. The call for “pro-manufacturing” policies is shared by industry in all three countries. To provide strong impetus to this overarching policy direction, NAFTA Leaders should make this a shared policy priority for their respective governments.
5. Canada and the United States agreed, in February 2011, to a “Shared Vision for Perimeter Security and Economic Competitiveness”. This declaration needs to be followed by concrete actions to improve trade efficiency and reduce needless regulatory impediments, while respecting national security imperatives of both countries.

PRO-MANUFACTURING POLICIES: CANADIAN STEEL INDUSTRY PRIORITIES

A broadly-based pro-manufacturing agenda would address policies affecting all manufacturing sectors in Canada. Steel is at the core of most major industrial clusters. In consequence, the CSPA seeks government action across five essential policy domains important to the manufacturing base: innovation and skills; international trade and investment; environment; energy; and infrastructure and transportation. CSPA’s policy interests in these areas are described in the sections that follow.

INNOVATION AND SKILLS

ISSUE

Developed and developing countries alike understand the importance that advanced manufacturing plays in a healthy economy and in global commerce. Faced with relentless competition from other countries, Canadian industry must continuously innovate in many dimensions – new technologies, new products, improved processes, and workforce skills -- to improve productivity, strengthen value-added, and enhance environmental 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 in steelmaking and other essential industries. With other nations acting aggressively across the innovation spectrum, Canadian industry must have access to a competitive suite of measures that will stimulate the development of new technologies, but also continuous innovation and productivity improvement in the manufacturing sectors.

STATUS

Canadian governments have historically invested heavily in specific parts of the innovation process, notably the 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 steelmaking, many current policies and programs offer limited and uncertain commercial applicability, and are insufficiently aligned with the more immediate market-based pressures facing industrial performers.

One key measure that encourages industrial innovation across the industrial spectrum is the Scientific Research and Experimental Development (SR&ED) tax credit. The SR&ED 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 industrial productivity. Policy decisions flowing from the Report of the federal panel on business R&D programs should give strong priority to strengthening the SR&ED from a business innovation perspective.

In the area of skills, the breadth and complexity of talent needed for modern manufacturing is highly underappreciated. A new generation of highly skilled industrial workers must be developed and attracted to the steel and other manufacturing sectors. This is evidenced by the recent report of the Canadian Steel Trade and Employment Congress (CSTEC), an industry-labour sector council that identifies the looming issue of shortages of skilled workers, and recommends a range of actions by industry, universities, community colleges, and research institutions. Immigration also plays an important role in filling shortages in the Canadian workforce.

Attracting new, skilled people to industry is essential, but no less important is the need to expand the skills of the current workforce, a factor also recognized in the CSTEC analysis. Through program and

fiscal measures, governments can partner with industry to invest further in upgrading the existing industrial workforce through support to continuous learning in new technologies and techniques.

Government programs that support technology development must also recognize the ever-growing importance of encouraging Canadian industrial and other research participation in global R&D networks. Government measures need to extend to collaboration in international projects, a prime example being the global steel industry's efforts to develop fundamentally new production technologies through the CO₂ "breakthrough" program of the World Steel Association.

PRIORITIES FOR ACTION

1. In addressing the recommendations of the review of federal R&D support measures, the government needs to determine how to strengthen, not reduce, the SR&ED tax credit system as an incentive to industrial R&D performance. Its design and administration must be premised on spurring industrial innovation, as reflected in the range and scope of eligible activities, the predictability of claims, and refundability provisions for firms in low tax or tax loss years, regardless of company size, so that they can sustain R&D commitments. Limitations in SR&ED applicability could be addressed by more direct financial incentives.
2. To upgrade current workforce skills, a new training tax credit would strengthen productivity and innovation while helping 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 support the development of the workforce skills 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. CSTECC is a proven approach to improving workforce skills development. The federal government needs to sustain its commitment to for the kinds of industry-relevant programs and services recommended by CSTECC, with the support of industry and labour.
4. The federal government must ensure strong, ongoing funding support for industry-oriented government research institutes, particularly a sustained commitment to the new CANMET Materials Technology research laboratory (Natural Resources Canada) in Hamilton, Ontario. Governments should work with industry to determine how a similar model could support research into new steel technologies important to other clusters of Canadian economic strength, e.g. energy.
5. Criteria for innovation programs and R&D tax measures need to enable greater Canadian participation in international research, particularly projects directed to improve environmental performance. Domestically, criteria for programs to encourage energy efficiency and develop new environmental technologies must include eligibility for established sectors such as steel, e.g. development of carbon capture and storage technologies.

INTERNATIONAL TRADE AND INVESTMENT

ISSUE

Canada's prosperity depends heavily on trade, and on attracting investment to Canadian industry. The steel sector, its customers and suppliers compete against the world at home and abroad. Trade and related policies play a critical role in competitiveness and investment throughout the steel supply chain.

Canada has the most open industrial economy in the world, placing domestic producers in fierce competition in domestic as well as export markets. Canada's steel producers are prepared to compete on a commercial basis, but not against foreign government subsidies and other forms of support that run counter to established trade rules. The government must challenge foreign trade restrictions in the WTO, press other countries to fulfill their WTO commitments, and enforce Canada's trade remedy laws to ensure market-based competition and fair trade in the Canadian marketplace.

Canada is actively negotiating multiple new trade and economic cooperation arrangements with major economies, notably the European Union, India, Korea, and Japan. The steel industry seeks outcomes that will lead to a net increase in Canadian industrial production and assured, reciprocal market access. New arrangements must continue to reinforce, not weaken, the trade remedy system, and serve to reduce trade-related business costs for steel producers and their industrial customers.

Strengthening economic efficiencies within NAFTA is an important goal. For steel producers and their customers, addressing supply chain inefficiencies and border-related trade impediments that impair intra-regional trade will improve the NAFTA countries' collective and individual abilities to compete against producers in other regions.

STATUS

Global steel trade is fraught with structural imbalances and significant overcapacity, due in large measure to foreign government policies including direct and indirect subsidies, state ownership or control, state-assisted financing, and restrictions on exports of key raw materials to name a few. Such practices exist in many offshore steel-producing countries. In particular, China -- a non-market economy -- produces almost half the world's steel and has built up massive excess capacity through a web of support measures to enable its producers to penetrate export markets. This includes an extensive pattern of subsidization and dumping of steel and steel-containing goods, the effect of which is to displace domestic products at the expense of Canadian jobs and growth.

Faced with such non-market behaviour, Canada and other countries must enforce their trade remedy laws to counter illegal trade practices. Trade remedies, which are based on World Trade Organization (WTO) rules, are designed to restore market-based trade with measures to help offset the impact of unfair trade practices. Canada's use of trade remedy measures is frequently matched and often exceeded by the U.S., the European Union (E.U.), Mexico and others. Thus, any pressures to weaken Canadian trade law must be firmly resisted. Enforcement must also extend to the problem of customs fraud and circumvention by importers of offshore steel products.

With almost half of global steel production, China is the major force in global steel trade, and it continues to operate as a non-market economy as it expands its reach into both upstream and

downstream industries. In the steel sector, China provides multiple forms of government support including the role of state-owned or controlled enterprises. As Canada moves to broaden its bilateral relationships with China, it must take a measured and balanced approach that reinforces market-based trade and investment for steel and related sectors. China's commitments in its forthcoming five-year steel plan must be evaluated in this context. The government must include extensive consultations with directly-affected sectors, including steel, as it moves to expand its bilateral relationship with China.

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 first step, as a basis for further negotiations. New bilateral trade and economic agreements must promise net industrial benefits to Canada, and must not seek to achieve potential gains in other sectors at the expense of Canadian manufacturing.

The confluence of environmental and trade policies has emerged as a major consideration in global climate change negotiations, and plans for related domestic regulations. Any new regulations or other climate change measures must include comprehensive measures to prevent "carbon leakage" for steel and other energy-intensive, 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 market-distorting practices. The government should work to eliminate such practices through international negotiations if possible, but where required it must remain firmly resolved to exercise its WTO rights fully to restore market-based competition across the steel supply chain. This includes addressing customs fraud and circumvention.
2. Market access negotiations including bilateral FTAs must lead to a net increase in Canadian manufacturing output. In balancing Canada's offensive and defensive interests, gains for other sectors must not be at the expense of manufacturing interests at home, or abroad. Effective trade remedy laws must remain a key tenet of new free trade and other economic agreements. FTA and other negotiations, including government procurement provisions, must include effective and extensive consultations with the affected industries, including steel.
3. Given China's large role in global commerce, especially in steel and steel-related industrial goods, the federal government must develop a stronger, mutually-beneficial economic relationship with this major industrial power. This could include formal bilateral dialogues in key sectors. To advance this goal, the government should strengthen its China policy capacity.
4. Canada needs to build on the foundation established by NAFTA, and the recent Canada-U.S. joint declaration of a shared vision, to achieve even greater economic efficiencies that will strengthen North American industrial competitiveness vis-à-vis other trading regions. This includes collaborative initiatives and policies including cross-border trade and infrastructure, transportation systems, and environmental policies that specifically address the competitive implications for energy-intensive, trade exposed sectors under any new climate change regulations.

ENVIRONMENT

ISSUE

Governments in Canada and elsewhere are considering new policies and regulations to reduce emissions of greenhouse gases (GHGs) and air pollutants. Multiple policy approaches have been proposed, with many variations with respect to scope, targets, timelines, and compliance options.

Since GHG emissions are generated globally, 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., to avoid competitive imbalances and the potential for new border measures being applied against Canada. Further, the federal and provincial governments in Canada must implement unified approaches to avoid regulatory overlap and unnecessary costs to industry and taxpayers. Governments need also to partner with industry to improve energy efficiency as a further means to lower emissions.

Regarding air pollutants, the Canadian Council of Ministers of the Environment agreed in late 2010 to develop an integrated, comprehensive approach to air quality management. This is a positive development that can help avoid unnecessary duplication and compliance costs. It is essential that the elaboration of this framework provide a proper balance among environmental, health, and economic outcomes. It must also include realistic timelines for implementing new standards and targets being developed as part of this new framework.

Recycling is an integral part of the steel industry’s commitment to environmental performance. Government policies should encourage the enhanced recovery of post-consumer scrap. However, some sources of steel scrap, such as older automobiles and appliances, 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 members are financially supporting the removal of mercury switches from end-of-life vehicles, and have committed voluntarily to a “zero mercury” purchasing policy for scrap.

STATUS

Canada’s steel industry has reduced its GHG emissions by some 17 percent between 1990 and 2009. The steel industry continues to invest in environmental and energy use efficiencies, but any new mandated reductions in GHG emissions must recognize that further major reductions will require new technologies that will not be available commercially for many years.

In the United Nations negotiations (Copenhagen, 2009) it was agreed that genuine progress requires shared actions by all major emitting nations, for environmental and economic reasons. The Canadian government further recognized the importance of policy compatibility with the U.S., including similar reduction targets. CSPA supports both positions. These principles must be combined with specific provisions to address competitiveness impacts for energy-intensive, trade-exposed (EITE) sectors.

Within Canada, there is growing risk of an incompatible patchwork of climate change policies at the federal and provincial levels. Conflicting or inconsistent plans add uncertainty, increased costs, and

ultimately investment risk for Canada. In addition, such an outcome would undermine the goal of ensuring policy and regulatory compatibility on a sectoral level between Canada and the U.S.

In any future climate change policy regime, many of the key inputs to steelmaking, such as energy, mining and transportation, will be subject to new GHG regulations and costs. Since Canadian steel producers must compete in both domestic and export markets, such extra costs cannot simply be added to the price of Canadian steel products. Regulatory conditions must therefore make allowances for these indirect costs that affect steel producers' competitiveness.

Regarding the regulation of air pollutants, the comprehensive air quality management plan being developed collaboratively among multiple stakeholders (environment and health groups, governments, industry) would deliver significant environmental and health benefits across Canada, while avoiding new regulatory duplication to the extent possible. Federal, provincial, and territorial Ministers of the Environment endorsed this framework in the fall of 2010. It is important that governments implement this integrated approach in a manner that properly balances environmental benefits, economic consequences, technological constraints, and realistic timeframes.

CSPA co-funds a national multi-year program ("Switch Out") to remove mercury switches from end-of-life vehicles. CSPA members have voluntarily gone further, with a "zero mercury" policy for all sources of scrap. Federal and provincial governments must continue to recognize this pollution prevention approach as the best means to prevent mercury emissions from steelmaking.

PRIORITIES FOR ACTION

1. New climate change policies must 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. At the federal and provincial levels, governments must pursue climate change policy compatibility between Canada and U.S. with comparable conditions for EITE sectors, including measures related to inputs.
3. Within Canada, governments must work together to integrate climate change policies and regulations into a single federal/provincial regime that incorporates compatible baselines, targets, compliance options, direct and indirect carbon pricing, timing, and reporting systems. Governments need also to partner with industry to improve energy efficiency, thus reducing demands on domestic energy supply systems.
4. Implementation of the new federal/provincial commitment to a comprehensive air quality management system (AQMS) must integrate environmental performance standards with economic and technological factors. The timing for this new regime and for future environmental performance must reflect technological and economic realities.

ENERGY

ISSUE

Canada's steel industry has a significant and multifaceted stake in federal and provincial energy policies. Steelmaking is an energy-intensive process, hence a fundamental need for competitive, reliable sources of energy and for policies that will reduce energy intensity for environmental and economic reasons. When Canadian industrial energy costs are significantly higher than in other countries, Canada's goods-producing sectors face a significant competitive disadvantage.

Developing Canada's varied energy resources and associated distribution systems (pipelines, electricity grid) increases energy supply, benefits domestic consumers and businesses, and creates both domestic and export opportunities for steel and other supplier industries. Thus, a robust energy sector is important to steel producers.

Canada is well-endowed to produce all forms of energy -- conventional and offshore oil and gas, oil sands, shale oil and gas, and electricity (hydro, nuclear, and thermal). Canada's energy future also includes the further development of alternative, lower carbon energy sources, e.g. wind, solar, tidal, co-generation and biomass. Such sources make an important, albeit limited, contribution to the future energy supply mix. Energy policies must continue the sustainable development of this full range of sources to improve the supply of competitive, reliable, and secure sources of energy for Canadian consumers and industry. Investment in new technologies will continue to improve environmental as well as commercial viability for conventional and newer sources.

Complementing the development of new sources of supply is the importance of increased energy efficiency in industrial processes. Policies that support improved energy efficiency can pay significant financial as well as environmental dividends to governments, industry, and individual Canadians. Support for improved energy efficiency technologies needs to be part of the energy policy mix, especially for energy-intensive, trade-exposed sectors like steel.

STATUS

Rapidly rising energy costs, and related issues of reliability and peak/off-peak scheduling, have become a significant cost pressure for Canadian industrial users. Whereas Canada once enjoyed energy cost advantages, the opposite is now true. Further, major investments that will be required to replace older, less-efficient sources of energy supply will add further costs to Canada's energy supply systems.

In order to increase the supply of competitive, dependable, and abundant energy, Canada must continue to invest in the development of both conventional and alternative sources. This includes supportive policies and timely regulatory review processes to enable the further sustainable development of oil sands and shale gas reserves, and of pipeline projects to deliver product to market. The steel industry recognizes that the effective development of Canada's energy resources has multiple dimensions – economic, technological, environmental, social — that must be addressed in order to strengthen the competitiveness, reliability, and security of energy supplies to help fuel Canada's future industrial economy. This includes working with industry in support of new technologies that will enable further development in a commercially and environmentally sound manner.

New, “green” sources of energy such as wind and solar power will also contribute to energy supply diversification, with potential economic as well as environmental benefits. In promoting such technologies, and the transition to a lower carbon economy, it is important to recognize several factors. First, such sources can make only a limited contribution to the energy requirements of steel and other industries that require continuously available, abundant energy supplies. Second, policies to encourage new sources must not place uneconomic cost burdens on industrial users. Third, the push to develop a cleaner energy supply mix in Canada should recognize the additional potential of lower/zero carbon sources such as increased use of natural gas and nuclear energy. Further development of such sources, in an environmentally sound manner, need to be part of a cleaner energy mix in Canada.

Energy cost burdens must be equitably shared. In developing energy policies to address capacity, reliability, and environmental considerations, governments need to ensure that major industrial sectors, competing in global markets, do not face an unsustainable share of the cost burden. Energy policies must pay full attention to the competitive consequences for Canada’s manufacturing sectors.

Improved industrial energy efficiency can make an important contribution to reducing energy costs and emissions. Steel producers have made impressive gains in energy efficiency over many years. Further major improvements will be harder to achieve, and will require partnering with governments to share in the technological and commercial risks. Program criteria and tax incentives for some energy efficiency programs are limited to smaller projects and users. Major users including the steel sector also require access to such measures, to reduce the industrial load on existing energy networks, especially electrical.

PRIORITIES FOR ACTION

1. Energy policies need to address specifically the needs of large industrial sectors for competitively-priced, dependable, and diversified sources of energy. Energy pricing policies should not place unwarranted, uneconomic burdens on major industrial users.
2. Energy policies need to recognize the continued importance of oil and gas as major energy sources and a major Canadian export. Policies should support the further sustainable development of Canada’s oil and gas reserves and associated distribution networks, with due consideration to economic, environmental, and other factors. This includes partnering with industry to develop the technologies and infrastructure necessary to develop Canada’s shale gas reserves to help meet new clean fuel standards for industrial equipment.
3. Governments must continue efforts to streamline major energy project approval processes, while fully respecting environmental and other regulatory requirements.
4. Policies to encourage a lower-carbon economy must recognize the contribution that can be made from the further development of cleaner fuel and energy sources including natural gas, hydroelectricity and nuclear energy, plus industrial co-generation and biomass projects.
5. Criteria for programs and tax measures to improve energy efficiency must include eligibility for large industrial users such as steel producers.

INFRASTRUCTURE AND TRANSPORTATION

ISSUE

Canadian industry depends on high-quality infrastructure and competitive transportation systems for the efficient delivery of material inputs such as iron ore, and to ship value-added products to markets in Canada and abroad. Economic analysis clearly shows a direct correlation among infrastructure investments, economic growth, and job creation. More efficient infrastructure also improves national environmental performance. To overcome years of underinvestment, and to accommodate future economic growth opportunities, Canada needs a sustained commitment to renew and expand its physical infrastructure. In addition to transportation needs, there is a pressing need in many municipalities to renew essential municipal services, such as water and sewage systems. Such investments in the future improve economic efficiencies and the quality of everyday life.

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 can governments allow the use of sub-standard imported materials that do not meet Canadian product quality standards.

In addition to good physical infrastructure, industries like steel require efficient and competitive transportation and logistics services to enable them to compete within Canada and in export markets. Effective competition, intermodal options, and balanced regulations are essential to major goods producers. Some proposed new regulations in both Canada and the U.S. could, however, create significant shipping problems for steel producers and for their suppliers and customers.

STATUS

Over half of Canada's infrastructure is more than 40 years old. Economists estimate an infrastructure "deficit" of at least \$200 billion for projects including roads, bridges, ports and railways. Recent economic stimulus spending provided a limited, short-term boost but did not fundamentally address the long-term, diverse needs of Canadian industry and citizens. Addressing critical physical infrastructure needs will require strong, multi-year funding commitments and coordination by all three levels of government. Such commitments, and associated revenue sources (e.g. gas tax revenues) must be sustained even as governments move to cut overall spending. Given the financial pressures on governments, more extensive use of public-private partnerships (P3's) will be necessary.

Some provinces have recently introduced or proposed regulations to accord a preference to wood over other construction materials. 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. Construction professionals, not governments, should determine the best materials for a particular purpose. Governments must also apply full technical diligence before changing building codes.

Regarding rail transportation, the federal government has endorsed most of the recommendations of the recent rail freight service review. Among other recommendations, the Report calls for the rail industry and major user industries to agree on model service agreements and standards, failing which

they may be regulated. Steel producers will work with the rail industry, other major industrial users, and government to ensure that the industry has access to competitive and reliable rail services.

The steel industry generates the largest volume of freight on the St. Lawrence Seaway/Great Lakes system. Recent U.S. shipping regulations, notably ballast water provisions for New York State, would have significant, very costly transborder impacts for steel producers. The Canadian government must continue to press U.S. regulatory authorities to take a prudent approach to environmental regulation in this area. Similarly, technological and commercial realities must be explicitly recognized in setting other planned environmental regulations for the shipping industry.

PRIORITIES FOR ACTION

1. Governments need to recommit to strong, sustained investments in infrastructure over a multi-year period. As a minimum, earlier plans for \$33 billion in incremental federal funding must be sustained. Special funds and other instruments should be examined as a means to assure dedicated funding for essential infrastructure purposes. Enhanced use of P3 approaches can leverage government infrastructure capital budgets.
2. Federal and provincial governments must not discriminate among building materials in construction procurements or in building codes. Public projects should be based on the best material for the job and value for money, and not on politically-determined criteria. Proposed changes to building codes must first go through a thorough process of technical evaluation, in full consultation with producers of all competitive building materials.
3. The implementation of the Rail Freight Services review will require action by all parties involved. Both the rail industry and government need to ensure that Canada's rail freight system provides the efficient, dependable services on which major industries such as steel must depend for shipping inputs as well as end products.
4. New marine 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. The Canadian government must continue to push for changes in planned U.S. state-level regulations that will otherwise materially harm Canadian shipping and cross-border trade.