Finance Canada Pre-Budget Consultations in Advance of Budget 2023
Submitted by: The Canadian Steel Producers Association

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Executive Summary

The Canadian Steel Producers Association (CSPA) is the national voice of Canada's $15 billion steel industry. Our member companies annually produce approximately 13 million tonnes of primary steel as well as over 1 million tonnes of steel pipe and tube products in facilities located across Canada. Domestic steel operations directly employ 23,000 Canadians while supporting an additional 100,000 indirect jobs.

Canadian steel producers are a critical component of Canada's economy and industrial base, including, automotive, energy discovery, extraction, and transport, major infrastructure projects, commercial/residential construction, renewable energy, and many general manufacturing applications. To date, the steel industry, government, and private investment will enable technological change that is estimated to reduce the steel industry's absolute emissions by over 45% by 2030, while additional projects and investments continue to come forward. The industry has also stated its ambition to reach net-zero by 2050.

As the global steel market faces recessionary and inflationary headwinds, protecting the domestic competitiveness of the Canadian steel industry has never been more important. Our industry faces a significant threat to this competitiveness as the implications of the Inflation Reduction Act (IRA) takes hold, while also losing significant market share to offshore countries with a history of dumping goods into Canada. The IRA signals an important shift towards fostering energy security and addressing the climate challenge by our largest trading partner. It will reduce emissions and generate demand for US steel given the steel purchase preferences built into the incentive programs. This is on top of risks associated with the US – EU efforts to create a steel carbon club and a strong US trade remedy system. Without an appropriate Canadian response, the IRA, and a serious increase in unfairly traded goods in the Canadian market will exacerbate a widening competitiveness gap.

Competitiveness Threat of the Inflation Reduction Act

The IRA takes an enabling approach to the climate challenge without a carbon price. In contrast, over the next seven years, the Canadian steel industry will face significant increases in carbon costs with carbon pricing rising to $170/tonne CO_2e by 2030. While we share a strong mutual track record on green performance with US steel producers, they will benefit from the IRA's investments and climate subsidies without facing an equivalent carbon cost bill in the billions of dollars.

The IRA also leverages incentives to create market pull for US steel, such as green procurement or Buy American requirements, and provides billions of dollars in subsidies across multiple industries and infrastructure needs that will help the US transition to net-zero. While Canada cannot compete on a dollar-to-dollar approach, there are several policies that the Government of Canada can implement that will generate demand for greener Canadian steel and move us closer to our Paris Climate targets.

As confirmed by international benchmarking, Canada and its North American partners produce some of the greenest steel in the world and it is time to prioritize the use of our green materials in all public projects. There is tremendous opportunity for green procurement in this transition, while enhancing competitiveness.

The Government of Canada must learn from the policy developments in the US and leverage its purchasing and program development power to create market demand for the green steel that is produced in North America today.

RECOMMENDATION 1: Maintain existing OBPS regulatory standards and do not impose tightening levels until at least 2030 in recognition of our competitiveness threats from the IRA, and in anticipation of our sector's significant progress in reducing emissions as well as our increasing trade exposure with the high potential for carbon leakage.

RECOMMENDATION 2: Use the Government of Canada's purchasing power to generate market demand for North America's greener steel produced today and into the future. This can be done by continuing to develop the Greening Government Initiative, while also urgently moving ahead on implementing reciprocal procurement to immediately close Canada's federal procurement market to all countries who Canada does not have free trade obligations to, limiting the import of carbon-intensive steel products from places like China, India, and Russia.

RECOMMENDATION 3: Provide increased financial support and funding tools for research, development, and adoption of advanced low carbon production technologies in the steel industry. The Government must ensure fulsome support of the steel industry transformation through our existing collaboration with Canmet, and by continuing to ensure support and funding through the NZA and SIF, as well as the Canada Growth Fund.

RECOMMENDATION 4: Provide appropriate funding for investment programs that will meet the significant cost of broader decarbonization solutions such as clean electricity, hydrogen, and carbon capture. These programs should have explicit conditions that incentivize the use of existing North American green steel.

RECOMMENDATION 5: Natural Resources Canada should add DR-grade iron ore to the critical minerals list when it is next reviewed given the increasing demand projected globally for this key decarbonization input, and because it meets Natural Resources Canada's established criteria determining criticality.

RECOMMENDATION 6: Prepare border adjustment policy tools to ensure the ongoing carbon competitiveness of the Canadian steel industry during its decarbonization given ongoing geopolitical developments and increasing global discussion on climate clubs, such as the EU-US Global Arrangement on Sustainable Steel and Aluminum, amongst others.

Competitiveness Threat of Unfair Trade

Canada's trade defence system, of which the steel industry is the largest user, acts as our only protection against unfairly traded goods. When the system addresses unfairly traded imports, domestic industry supplies Canadian projects with green steel, benefiting workers, communities, and the environment. However, when it does not work, carbon-intensive imports are chosen over domestic production, promoting carbon leakage, and increasing Canada's carbon footprint.

In addition, when our trade defences do not keep pace with those found in other countries, such as the United States, it creates distortions in competitiveness and incentivizes companies to invest in the country with more protections.

Currently, 41% of Canada's steel demand is supplied by offshore countries, skyrocketing from 19% less than a decade ago, while Canadian producers provide only 32% of Canada's steel consumption. To counteract this and establish a level playing field for Canadian steel, the trade remedy system must become timelier and more responsive. While Canadian companies are successful in proving offshore countries dump in our market, unless trade remedy enforcement tools are used quickly and consistently we will continue to see hundreds of thousands of tonnes of unfairly traded goods enter our market. Industry and government must work together to begin a discussion to improve our trade defenses, while also seeking greater alignment with the US on creating transparent supply chains in allied countries.

RECOMMENDATION 7: Finance Canada and the Canada Border Services Agency should hold consultations on further enhancements to Canada's trade defense system as part of an iterative process to defend Canada's market from rising unfair steel imports. Industry has indicated that two of the largest issues that companies are facing today, and should be a central component of the consultation, are reform of the normal value system and ensuring our anti-circumvention tools work for industries like steel.

RECOMMENDATION 8: Implement a steel melt and pour monitoring system through integration into the Canada Border Services Agency's forthcoming CARM, to reduce administrative burden on government and the private sector, as soon as possible. This will provide increased supply chain transparency, fight unfair trade, and have the potential for integration into future environmental initiatives.

The IRA provides Canada with an opportunity to both reimagine our relationship with the United States and to rethink whether we have struck the right balance between a costly regulatory environment, investment supports, policies that can drive green markets and fostering the needed partnerships for the delivery of the broader climate solutions. Given the scope of problems facing the steel industry, a robust approach of policies, tools and programs are critical to enabling Canadian producers to be competitive.

Sincerely,

Catherine Cobden
President & CEO