RESPONSE OF THE FEDERAL GOVERNMENT TO THE RECOMMENDATIONS OF THE CONSULTATIVE TASK FORCE ON

THE CANADIAN PRIMARY IRON AND STEEL INDUSTRY

Government of Canada
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TABLE OF CONTENTS

INTRODUCTION

In February 1978, Canada's First Ministers initiated a process of private sector consultations on measures to improve the performance of, and the outlook for, the manufacturing, construction and tourism sectors in the Canadian economy. Twenty-three industry task forces composed of representatives of management, labour and the academic community were formed. Provincial and territorial government representatives also participated. By August 1978, each task force had completed a series of meetings and submitted a report reflecting conditions in their industry to the Federal and Provincial Ministers of Industry and to the public. These reports covered a broad range of themes and the recommendations contained in them are viewed by the federal government as important elements in the development of future industrial policies.

Following the work of the industry sector task forces, an Overview Committee was established consisting of five representatives from the Canadian Labour Congress, five from the business community, one from the academic community and a chairman from the private sector. This group worked from the task force reports, identified common viewpoints, and presented policy recommendations applicable both to the economy generally and to specific industries. The Overview Committee presented its report to Governments in October 1978.

In reviewing the prospects for industrial growth over the next number of years, the reports prepared by the industry task forces and the Overview Committee addressed two objectives in particular. The first, was to improve the competitiveness and productivity of Canadian industry. The second was to create long-term employment.

In assessing these reports, and the Government's responses, a number of themes emerge which are of particular importance and which might be viewed as providing a framework for the recommendations of business and labour as well as the responses of the federal government. These themes focus on measures to increase industrial competitiveness, especially by building on comparative advantage, the support of regional economic development goals and the enhancement of Government, business and labour cooperation.

While the substance of what has emerged from the task force and Overview Committee reports is of utmost importance, the Government believes that the emerging process of Government/private sector consultation is of equal value. In this regard, the federal government views the results of these consultations as a significant framework for evaluating existing policies and programs and for designing new ones.

As part of its commitment to the consultative process, the Government has undertaken to respond to the recommendations of each of the 23 task forces and to those of the Overview Committee. An initial Government response was released in November 1978 entitled "Action for Industrial Growth - A First Response". A specific response to the task force recommendations with respect to taxation measures was included in the Budget Papers of November 16, 1978. On February 21, 1979, the Government released its response to the forty-six recommendations made by the Overview Committee. The Government agreed with and outlined measures in relation to the overwhelming majority of these recommendations. This document, Response of the Federal Government to the Recommendations of the Consultative Task Force on the Canadian Iron and Steel Industry, constitutes one of the twenty-three detailed federal government responses paralleling the task force reports and should be viewed as part of the ongoing consultative process.

It is recognized that the implementation of policy initiatives indicated in these responses will, in many cases, take some time and that a few other policy issues have yet to be fully addressed. The Government will, therefore, be continuing to respond to the industry task force reports. The Government also believes that continuing consultations between business, labour and Government on specific industry sector problems are a vital part of this further work. Finally, the Government recognized that in responding to the recommendations, not all participants of each task force will be satisfied. In a number of instances, dissenting reports were submitted along with or after completion of the task force report. The Government is committed to addressing all recommendations contained in these reports.

PART I

GOVERNMENT RESPONSE TO TASK FORCE RECOMMENTATIONS - AN OVERVIEW

In its task force report, the Canadian steel industry emphasizes that the viability and competitive position of the domestic steel industry be maintained. For this to occur, governments must create productive and harmonized taxation policies, rational and equitable transportation policies, and coordinated and moderate environmental control legislation. The task force stated that in recent years, however, the industry's financial position has deteriorated, due in large measure to serious inflation, economic and political uncertainties and the time-consuming and costly burden of government impositions.

The federal government accepts in large measure this assessment of the iron and steel industry at least as regards the problems of the competitiveness of the Canadian industry. This reflects, to a significant extent, the international market for steel and iron where an overcapacity exists and prices place considerable pressure on all but the most competitive and efficient producers. To provide the Canadian iron and steel industry with such a base the Government has initiated many measures, most of which have been taken since the task force report was completed in July 1978 and are found in the November 1978 Budget. Among the more important of these was the treatment of the investment tax credit which has been extended indefinitely, has been raised from five to seven per cent (with larger increases in areas of slow growth), and has been broadened to cover transportation-related equipment. The investment tax credit, of course, has a major impact on decisions concerning industrial expansion and modernization. Also important in this budget were the reduction in sales tax from 12 to 9 per cent; the increased write-off permitted for mining development expenditures and the tax changes aimed at reducing the cost of industrial research and development activities.

The task force report draws the Government's attention to recent problems in international steel trade in which foreign non-tariff barriers, subsidies and safeguard measures have been used to the disadvantage of Canadian steel producers. The Government recognizes the need for an international agreement concerning subsidies and NTB's and the Canadian delegation to the MTN will participate in negotiations aimed towards such agreements. Furthermore, the Canadian government is committed to taking quick action on injurious imports in keeping with our international rights and obligations.

The Iron and Steel Task Force reiterates that the future of the Canadian steel industry depends upon a sound and growing domestic market demand and recommends that greater importance be attached to the need for a strong domestic secondary industry. In response, the Government is developing a policy for further processing in Canada and a task force has been formed which will meet with the provinces on this question. At the same time other recommendations requiring a significant provincial input will be discussed.

Although labour disassociated itself from the report of the Iron and Steel Task Force, the Task Force Chairman, Mr. Orr, wrote: - "I believe it is fair to state that the presence of union representation at our meetings had constructive impact and contributed to some of the conclusions reached".

PART II

DETAILED RESPONSE TO TASK FORCE RECOMMENDATIONS

TARIFFS AND TRADE

1. Recommendation

Since the future of the industry depends on a sound and growing domestic market demand, governments must attach greater importance than in the past to Canada's need for a strong, growing domestic secondary industry, and develop appropriate policies.

Government Response (Agree)

The federal government, in cooperation with the provinces and industry, is developing policies to encourage a strong and growing domestic secondary industry. The Government publication "Action For Industrial Growth; A First Response" (November 1978) lists many initiatives already taken. For instance, there has been a federal commitment to reduce the burden of Government on private enterprise by lessening the paperwork associated with regulation and by curtailing statistical reporting requirements. A broad spectrum of tax changes have been introduced to benefit small and growing enterprises. Through new procurement policies and marketing initiatives the Government expects to improve the opportunities for secondary industry both in the domestic market and in international trade. Through these and other measures the federal government intends to encourage the vigor and aggressiveness of Canada's manufacturing sector.

2. Recommendation

Reduction of Canadian tariffs increases the vulnerability of Canadian steel producers and their domestic customers to foreign competition. Mechanisms must be established to identify and control unfair trading practices. Our MTN negotiators should press for an international code of conduct in respect to subsidized exports and delineation of practices considered unfair, which recognize the wide variety of government assistance and reliefs apparently available to steel producers in foreign countries. Canada must set up a system for early identification of imports supported by such practices, and for speedy application of appropriate countervailing measures.

Government Response (Agree in principle)

The Government attaches major importance in the multilateral trade negotiations as a means of achieving a substantial reduction in, or elimination of, non-tariff barriers hindering international trade. In this context, a priority objective of Canada in the MTN has been the conclusion of a satisfactory arrangement on subsidies/ countervail. Such an arrangement would provide greater clarity to the provisions of the GATT respecting subsidies affecting international trade including the prohibition of export subsidies on industrial products. The task force's recommendation in this respect has been brought to the attention of the co-ordinator for the Multilateral Trade Negotiations and has been taken into account in the development of Canada's position.

The Government also reaffirms its commitment to taking expeditious action on injurious imports compatible with our international rights and obligations. Specifically, its efforts in this area include:

a) Special measures have been instituted by the Minister of National Revenue to expeditiously deal with the threat of large-scale dumped foreign steel into Canada. A steel task force has been established to monitor and analyze all steel imports on a continuing basis so that adverse developments with respect to import prices and market situations can be identified.

b) Continued development by Finance, Revenue Canada and Industry, Trade and Commerce of more efficient domestic procedures and administration of regulations/legislation dealing with injurious imports, taking into account changes resulting from the MTN.

Specific views or proposals in this regard would be welcome.

3. Recommendation

The results of the Tokyo Round will have differing impact on companies within the industry. Any boards set up to examine dislocation and adjustment assistance should include representatives of both industry and labour.

Government Response (Agree in part)

Companies seeking adjustment assistance in light of the MTN will have access to a specialized panel of the Enterprise Development Board. All Enterprise Development Boards, regional and central, are chaired by a representative of private industry, and some other board members are drawn from the private sector. Labour is not as yet directly represented on E.D.P. boards.

The special MTN-related initiatives which will provide funds for restructuring proposals are as follows:

a) $2 million per year for consulting assistance to firms injured as a result of MTN to help provide professional advice to devise and implement restructuring proposals;

b) $20 million per year for up to 100 per cent loan insurance to finance restructuring proposals from firms seriously injured or likely to be seriously injured as a result of freer trade flowing from the Tokyo Round; and

c) $5 million per year for direct loans to finance restructuring proposals in firms seriously injured or likely to be seriously injured by reduced tariffs.

4. Recommendation

With the increase of world-scale export-oriented steel production in developing countries, the relatively open-ended nature of the Canadian General Preferrential Tariff is of concern. Consideration should be given to establishing a specified ceiling on imports under the G.P.T. for steel and steel-consuming products, similar to those applied by the EEC, or Japan. The U.S. has excluded steel products from the G.P.T. agreement.

Government Response (Under review)

The task force's views regarding the General Preferential Tariff system have been taken into account in the current review of the G.P.T.

5. Recommendation

Separation of alloy, including specialty steels, from carbon steels should be undertaken in the Customs Tariff. Rates of duty for alloy and specialty steels should be set at levels which are consistent and equitable with those of our trading partners.

Government Response (Under review)

These recommendations are being reviewed by the Department of Finance in consultation with Industry, Trade and Commerce. They have also been brought to the attention of the Co-ordinator for the Multilateral Trade Negotiations.

6. Recommendation

With the overall maturing of the Canadian economy, many "end-use" tariff items have long outlived their historical justification. Similarly, tariff items for steel and steel-consuming products that carry specific duty rates have become emasculated by price changes and inflation. A government task force should be set up to examine such items, and should include representatives of the steel producers, and the steel-consuming sectors that might be affected.

Government Response (Under review)

It would not be appropriate to consider such an examination at the present time since the entire customs tariff including the steel schedule is now under negotiation in the M.T.N. However, the Government is prepared to study this recommendation in the light of the results of the MTN.

7. Recommendation

There is an increasing international demand for design, supply and construction related to large-scale development projects. As an aid to efficiency and international competitiveness, Canada needs a mechanism, beyond conventional export financing, to encourage the formation of consortia for such undertakings. Active government involvement would be advantageous.

Government Response (Agree in principle)

The Program For Export Market Development, administered by the Department of Industry, Trade and Commerce, provides assistance to Canadian companies who wish to form an export consortium. The consortium must be based on the continuing purpose of combining and improving export capabilities through economies of scale in marketing and productivity, improved competitive capability and increased export potential over and above that of individual firms acting separately.

The Government will undertake a comprehensive review of government policies, programs and practices bearing on export promotion activities by Canadian industry, with emphasis on information systems, use of public agency expertise, export incentives, consultant promotion of Canadian equipment and services, export consortium formation and support, the use of free consulting services as an export tool, and the question of federal/provincial coordination in export marketing.

The Department of Industry, Trade and Commerce has established an advisory committee on export promotion to guide the review and will invite the Canadian Exporters Association, the Association of Consulting Engineers of Canada and the Canadian Construction Association to participate.

8. Recommendation

Arising from recent protectionist moves in Europe and the United States, trilateral discussions are taking place among the EEC, Japan and the U.S., apparently aimed at resolving steel trade issues either within the GATT or in some other forum. Since there are many implications for the Canadian steel industry, we urge our government to monitor these developments closely and to participate to the maximum extent possible.

Government Response (Agree)

Canada has become a member of the recently-established Iron and Steel Committee which has been formed to deal with international trade issues in steel within the general framework of the O.E.C.D. In this way, the Canadian government will participate in all discussions concerning steel trade which take place in this forum.

FINANCE

9. Recommendation

Government policy should concentrate on making business investment in the private sector more attractive to investors. In particular, equity investment must be encouraged to assist companies with heavy fixed debt positions in raising essential share capital. The government should encourage innovative forms of equity financing such as floating-term preferred shares.

Government Response (Agree in part)

There have been signs of significant improvement in Canadian equity markets this year. To some extent this reflects major changes that have been made in tax treatment of business and their shareholders in the past few years. Of particular and direct importance to equity investors are the enhanced dividend gross-up and tax credit, the deferral of capital gains tax on inter-generational transfer of shares in small businesses, and on dispositions of business property for relocation purposes, and the opportunity to make a permanent election of capital gains treatment on most types of Canadian securities. The tax changes referred to above, along with other changes in corporation taxation, provide attractive opportunities for equity investment in Canada.

The budget of November 1978 enriched and extended indefinitely the basic rate of the investment tax credit from five to seven per cent, effective immediately.

The budget also increased support to regional development for investments in areas designated under the Regional Development Incentives Act, other than in the Atlantic Provinces and the Gaspé, the credit was raised from seven and one half per cent, to 10 per cent. These areas include most of Québec, all of Northern Ontario, Manitoba and Saskatchewan, parts of Northern Alberta and British Columbia and all of the Yukon and Northwest Territories. For Atlantic Canada and the Gaspé, the investment tax credit was doubled from 10 to 20 per cent.

10. Recommendation

Government policies should be aimed at creating a stable tax structure to minimize uncertainty and to facilitate a rationalized long-range planning program in the business sector.

Government Response (Agree in principle)

The Government recognizes the need for stability in the tax structure and has moved to incorporate long-term incentives in the tax system. Investment tax credits have been significantly enhanced and extended indefinitely. In addition R & D incentives are being geared to the long time-frame interest in the innovation process.

11. Recommendation

Governments have recognized, to a degree, the adverse impact of inflation on real profit margins by introducing the three per cent inventory allowance. Consideration should be given to increasing the inventory allowance to reflect the actual rate of inflation, or to permit the LIFO method of inventory valuation.

Government Response (Agree in part)

The Government has recognized that distortions in income measurements do arise from the use of historic cost accounting in an inflationary environment and has publicly stated its interest in a comprehensive solution to this problem. As accounting data are used for more than tax computation, this is an issue on which the private sector must take the lead. The Government has, however, actively supported the activities of accounting bodies and business groups in Canada in their review of the issue. In the interim, tax changes such as the three per cent inventory adjustment, the investment tax credit and accelerated capital cost allowances have been a positive response, substantially mitigating the impact of inflation on business taxation.

That inflation adjustment of financial statements presents complex problems is evident from the fact that no country has so far adopted a widely-accepted, comprehensive inflation accounting system despite intensive international efforts to develop such. Nevertheless, some conclusions have been forthcoming. In particular, it has now come to be generally accepted that inflation not only leads to an overstatement of profits because of first in - first out (FIFO) inventory and historic cost depreciation accounting, but also to an understatement of profits because accounting conventions overstate the real cost of corporation borrowing during an inflationary period. This latter point is discussed fully in the studies which have been carried out by the Economic Council of Canada and by the Ontario Committee on Inflation Accounting. When the implications of debt financing are recognized along with the full implication of tax changes that have been adopted, the overall level of Canadian corporation taxation does not differ greatly from what it would be under a comprehensive system of inflation accounting.

The Government will, however, continue to support the development of appropriate inflation accounting systems in the private sector because of the importance of accurate information on business operations for the efficient operation of the economy, and the possibility that the existence of such information would allow a fairer distribution of the total corporate tax burden.

12. Recommendation

In applying the investment tax credit on the cost of new production equipment, buildings and eligible research and development, the capital cost of the asset used for computing depreciation should not be reduced by the amount of the tax credit. To ensure the tax credit can be fully utilized, it should apply for longer periods with general carry back and unlimited carry forward provisions for unused credits. To encourage capital investment, consideration should be given to an additional general increase in the investment tax credit rate.

Government Response (Agree in part)

The budget of November 16, 1978, responds in a very positive manner to the investment incentive suggestions made by the task forces. It extends the investment tax credit indefinitely. The rates of credit are increased, most notably for investments in designated areas (as per response number 9 on page 9). The coverage of the credits is broadened to include transportation. The extension and enrichment of the investment tax credit and the two year write-off for manufacturing and processing, which has been permanent since 1975, provide a very attractive environment in which to undertake modernization and expansion. Other broad-based fiscal measures introduced in the budget will help sustain growth in consumer demand, thus making investment far more attractive and profitable for the private sector.

Several sectoral reports suggested that the effective rate of the investment tax credit be raised by removing the requirement that the credit received reduce the capital cost allowance (CCA) base. A general principle of the tax system is that deductions should be based on the actual cost incurred by taxpayers. The current structure of the credit is consistent with this principle. The credit acts in a precisely similar fashion to a reduction in the price of qualifying assets by the rate of credit. The rates of investment tax credit have been chosen with regard to the degree of incentive provided and government revenue requirements. The reduction of the CCA base by the credit received has been recognized in the choice of rates and is desirable in order to provide neutral treatment of longer and shorter-lived assets. In the United States, where the credit is not deducted from the capital cost allowance base, a similar result is achieved by giving only partial credits to assets with a life of less than seven years. The more appropriate method of enhancing the value of the credit is through increasing the credit rates directly, as was done in the November 1978 budget.

Business losses and the investment tax credit may be carried forward to reduce tax for up to five years. Given the discretion in timing available to taxpayers in claiming capital cost allowances, this provides for full utilization of the amounts in all but exceptional circumstances. Many sectors, in arguing for extension of the carry forward, referred to the United States, where the period is seven years. However, it should be noted that in that country CCA must be claimed in full in each year, giving taxpayers significantly less flexibility in the claiming of deductions.

13. Recommendation

Pollution-control facilities are not revenue-producing assets, and in fact increase operating costs. Consideration should be given to setting the investment tax credit on pollution-control equipment at a higher rate than that applicable to production machinery and equipment.

Government Response (Agree in principle)

While not meeting this recommendation directly the budget of November 16, 1978, provided relief to corporations by extending indefinitely the two year write-off of water and air pollution equipment. Such investments also qualify for the investment tax credits which were increased and extended indefinitely.

14. Recommendation

Pre-existing federal tax incentives for iron ore mining and processing should be restored to encourage development of new Canadian mines. Thus, the three year tax exemptions for new mines, automatic depletion allowances, and depletion allowances on dividends should be re-installed. The 25 per cent resource allowance currently allowed on profits accruing from domestic iron ore processing should be extended to the processing of foreign ores in Canada. Provincial governments should harmonize their tax environments to ensure increased exploitation of domestic iron ore resources.

Government Response (Agree in part)

Federal and provincial Finance and Resource Ministers have just concluded an in-depth review of the situation in mining. The federal tax system has been found to be basically sound. The federal government is, however, taking the lead in introducing some changes to spur the development of new ventures and to deal with identified weaknesses in exploration and mine development in Canada. It is hoped that the provinces will now do their part.

Two of the major incentives included in the federal budget of November 16, 1978, are as follows:

- Development expenses in mining may be written off at 100 per cent instead of 30 per cent.
- The capital cost of new social assets and townsite facilities acquired after November 16, 1978 for new mines will be eligible to earn depletion at a rate of $100 depletion for every $300 expenditure.

15. Recommendation

All machinery and equipment used directly or indirectly in manufacturing and processing operations should be exempt from federal and provincial sales taxes. The present definition of such machinery and equipment in the federal statute should be adopted by the provinces.

Government Response (Agree in part)

Machinery and equipment used directly in manufacturing and processing operations are exempt from federal sales taxes. Such items employed indirectly are not exempt. However, the federal budget of November 16, 1978, reduced the level of federal sales tax from 12 per cent to nine per cent, thereby reducing significantly the federal sales tax imposed upon machinery and equipment employed indirectly.

The application of provincial sales taxes on machinery and equipment varies across the country. The definitions used by provinces and the provincial sales tax imposed are matters for provincial consideration.

16. Recommendation

The government should guarantee that the present regulations allowing manufacturing companies a two year write-off period for production equipment will not be changed without advance notice of at least five years. Planning for capital-intensive projects can take from one to two years. A five year guarantee for fast write-offs would be of significant help to manufacturing companies in planning their expansion programs.

Government Response (Agree in principle)

The two year write-off for production equipment used in manufacturing and processing was extended indefinitely in 1975.

17. Recommendation

A greater degree of fiscal harmony between federal and provincial governments leading to the adoption of a uniform income tax act for both federal and provincial purposes would reduce administrative costs. Both levels of government should permit filing of consolidated tax returns.

Government Response (Agree in part)

A number of task forces referred to the need for federal and provincial cooperation in fiscal policy. While it would not be possible nor desirable to have a rigid, uniform system of tax and expenditure policies in a diverse federation such as Canada, some important avenues for cooperation do exist. The consultative industry task force process itself arose from a meeting of First Ministers on economic issues. Finance Ministers meet on a regular basis to exchange information and discuss economic matters. Joint federal and provincial reviews of issues of common concern are also carried out frequently. A recent example is the review of resource taxation. The federal government is committed to these avenues of cooperation and will continue to support them. The federal government stands ready to enter into tax collection agreements with any province that wishes to adopt the same definition of taxable income as used in the federal Act. The federal government remains committed to the concept embodied in the agreements as a means of maintaining tax harmony while allowing Government a degree of fiscal flexibility.

A few sectoral reports recommended that consolidated tax returns be allowed for related corporation groups in order to allow losses in one or more operations to be offset against income in related, profitable companies. In response to this, it should be recognized that in a majority of cases companies can utilize losses within present tax laws. The provisions for consolidated tax returns are generally very complex and would require significant amendments to the Income Tax Act.

A system of consolidated tax returns would allow considerable flexibility for corporations under common control to transfer losses, and thereby tax deductions, within the corporation group. In Canada, there are some significant variations in the rates of federal and provincial taxes applicable to corporation income. Strong incentives would arise to create a number of corporation entities to take advantage of the flexibility provided by consolidation to minimize tax liabilities. This could result in substantial loss in tax revenues.

Any system of consolidation which attempted to deal with this major problem would likely be very complex. This is at a time when the government is attempting to simplify the body of technical rules applying to business. However, the existing situation does produce some undesirable results and attempts are being made to develop reasonable solutions.

18. Recommendation

Municipal taxes also represent a substantial cost to industry. Provincial governments should ensure that there is no significant shift in the tax burden to industry resulting from changes in assessment valuation practices.

Government Response (Provincial jurisdiction)

This subject lies within the purview of the provinces. The task force recommendations have been brought to the attention of the provincial governments.

REGIONAL DEVELOPMENT

19. Recommendation

Canada's export policy for scrap should be formulated with due recognition of regional needs.

Government Response (Agree in principle)

Canadian export of scrap is controlled under General Permit EX-9 on a national basis. Officials in the Department of Industry, Trade and Commerce continually monitor the supply distribution of scrap in Canada. The Department can, therefore, respond rapidly to any potential problems arising for domestic scrap consumers.

In addition, the Resource Industries Branch is commencing a study on the projected supply/demand parameters over the medium-term. The study will be conducted with the cooperation of both the scrap industry itself and the major scrap-consuming sectors.

20. Recommendation

Procedures under Anti-dumping and Countervail Legislation should recognize the vulnerability of regional mills.

Government Response (Under review)

This recommendation has been brought to the attention of the responsible agencies. However, the recommendation is partly responded to by the Government's commitment to take expeditious action on injurious imports compatible with our international rights and obligations.

21. Recommendation

Provincially-controlled steel plants have incurred substantial deficits in recent years. Government investment or support of deficits in the steel industry should be based on economic viability. Investment programs by Governments should be complementary to, rather than competitive with, the profitable segments of the industry.

Government Response (Agree in part)

While this recommendation appears to be directed to the provinces, it should be noted that DREE criteria include economic viability and consideration of the entire industry sector in Canada as well as social considerations.

ENVIRONMENT

22. Recommendation

That standards should be based on broadly accepted scientific principles and developed in consultation with the industry on a cost-benefit basis recognizing both the interests of society and those of the industry.

Government Response (Agree in part)

The federal government will apply socio-economic impact analysis including cost benefit analysis on all new major regulations being developed and the results will be made available to any interested persons. In addition, the federal government has recommended to the provinces that they consider a similar approach in developing their own environmental regulations.

23. Recommendation

That there be greater coordination of federal and provincial jurisdiction in pollution-control standards.

Government Response (Agree in principle)

Wherever possible, implementation of federal environmental protection regulations is being undertaken by provincial agencies. This is accomplished currently in seven provinces under provisions of federal/provincial agreements. The Department of Environment is to examine relationships with provinces to determine where further improvements can be made.

24. Recommendation

That governments continue to recognize that the economic cost of enforcing new standards on existing plants may be excessive and, in turn, may inflict undue hardship on the community, local and national.

Government Response (Agree)

Environmental protection compliance standards agreed upon for a firm on the basis of existing technology will not alter for at least five years and plants complying with existing technology when they come on-stream will not face demands for higher standards for a minimum of five years unless emergencies develop.

25. Recommendation

That part of the cost of installation of pollution-control equipment be undertaken as a social cost by the community rather than solely as a private cost to the company.

Government Response (Agree in part)

The capital costs incurred to abate air, water or other pollution may, of course, be included in the approved capital costs of a project that is otherwise eligible for incentive assistance under the Regional Development Incentives Program, administered by DREE, if the pollution abatement equipment is an integral part of that project. These capital costs are also eligible for the accelerated capital cost allowance and the investment tax credit.

In general, the Government adheres to the principle that costs associated with pollution abatement are the primary responsibility of the firms involved.

TRANSPORTATION

26. Recommendation

That federal and provincial governments should review thoroughly transportation policies and practices with the aim of encouraging a fair, equitable and low-cost transportation network, which will reflect the real costs of moving materials including energy commodities.

Government Response (Agree in part)

The Government's policy is to rely primarily on market forces for the most efficient allocation of transportation resources in a competitive atmosphere. Commercial viability is a major objective of transportation policy. Where Governments decide that national or regional socio-economic objectives require goods to be moved at unremunerative rates, Governments should bear the additional expenditures required to meet these special objectives. Where no effective competition exists, transportation rates and services should be so regulated as to give users the same protection as if rates and services were subject to effective competition. These principles are enumerated in Bill C-20, an Act to amend the National Transportation Act, the Railway Act and other acts, which received first reading in the House of Commons on November 16, 1978.

Other measures have been taken to encourage the development of an effective and efficient transportation system. Two large Crown Corporations, Air Canada and Canadian National, have had their capital structure modified to allow them to operate on a basis consistent with normal commercial practice. In the area of taxation, the November 1978 budget introduced a seven per cent investment tax credit on transportation equipment, and the April 1978 budget increased the capital cost allowance on railway rolling stock. These tax measures will help generate the needed capital for major new investment in the transportation system.

27. Recommendation

The national rail carriers adopt more consistent and competitive pricing policies to assist long-term planning within the steel industry.

Government Response (Agree in principle)

The Government's policy with respect to transportation rates and services is described in the response to Recommendation 25, and applies equally to rail carriers. Transport Canada encourages direct consultations between the railways and the iron and steel industry for the purpose of developing longer-term forecasts of transportation requirements in this field.

28. Recommendation

That government policies designed to restrict coastal trade to solely Canadian vessels be reviewed. The steel industry is deeply concerned that current policies will result in markedly higher freight rates for domestic users, compared with those prevailing through unrestricted shipping trade.

Government Response (Under review)

Present Government policy respecting the coasting trade is to allow foreign vessels to enter this trade if no suitable Canadian ship is available for the proposed operation. In August 1977, the Minister of Transport tabled, for discussion and comment, a position paper describing a proposed Coasting Trade Act to replace the existing provisions in the Canada Shipping Act. The Government is aware of the concerns of shippers whose goods may become less competitive if faced with high transportation costs or lack of capacity. Representations have also been made by shipbuilders, marine carriers and maritime unions. These concerns will all be taken into account in the process of attempting to develop a suitable policy on the coasting trade.

EXPORT INCENTIVES

29. Recommendation

Changes in export incentives should await the outcome of further examination in the current GATT/MTN negotiations. Given a general international acceptance of export incentives and subsidies, however, Canadian steel producers would expect equivalency, particularly with regard to practices adopted by the U.S., its predominant export market.

Government Response (Under review)

The Government will undertake a comprehensive review of government policies, programs and practices bearing on export promotion activities by Canadian industry, with emphasis on information systems, use of public agency expertise, export incentives, consultant promotion of Canadian equipment and services, export consortium formation and support, the use of free consulting services as an export tool, and the question of federal/provincial coordination in export marketing.

30. Recommendation

The federal government should direct the Export Development Corporation to limit participation in foreign developments to those that respond to local consumer demand or high export demand not already being adequately satisfied. Additionally, the government should seek the support and agreement of other OECD nations with respect to the adoption of this policy by member nations.

Government Response (Under review)

The Export Development Corporation conducts its activities on what are believed to be commercially sound principles. It provides no preferential services for the exportation of steel plant and equipment, and no special financing provisions are contemplated to stimulate such exportation. Export financing of capital goods associated with the steel industry has been provided in conformity with O.E.C.D. guidelines.

The recently-formed Steel Committee within the O.E.C.D. has recognized that it may now be appropriate to develop new recommendations to guide member countries in their financial participation in, or assistance to, foreign projects.

SCRAP

31. Recommendation

Revision of the export permit system to control and monitor scrap exports to offshore countries and to restrict these exports if Canadian supply is threatened. Restriction of scrap sales to the U.S. market is generally unwarranted, assuming control exists over the direct sale to U.S. exporters and assuming unrestricted supply from the U.S. to Canadian consumers.

In the event that either Canada or the U.S. takes steps to restrict scrap exports, a reciprocal scrap trade agreement should be negotiated. Canada should immediately initiate discussions with the United States to arrive at such an understanding.

Government Response (Agree in part)

There are on-going discussions between Canadian and the U.S. officials on the scrap situation, with a fundamental recognition of our interdependence with respect to two-way regional scrap flows. If supply problems should arise, mechanisms exist by which they can be quickly resolved to the benefit of both countries.

ENERGY

32. Recommendation

Encouragement of exploration and development, by the private sector, of all forms of energy to increase substantially its long-term availability.

Government Response (Agree)

The budget proposes a series of measures to stimulate investment in exploration and development, and new mining ventures in Canada. The changes significantly reduce taxation for business participating in these activities.

First, the provision to permit the immediate deduction of Canadian exploration expenses for individuals and non-resource corporations is to be extended until December 31, 1981. This provision, originally introduced on May 25, 1976, would otherwise have terminated on June 30, 1979.

Second, the costs incurred after November 16, 1978, for the development of new mines may be written off at 100 per cent. Previously, these costs could be written off at a maximum rate of 30 per cent.

Third, the capital cost of social assets and townsite facilities acquired after November 16, 1978, for new mines will be eligible to earn depletion, at a rate of $100 depletion for every $300 expenditure. These costs will, in future, be treated in the same way as other costs relating to new mines.

Fourth, costs incurred after November 16, 1978, relating to the recompletion of a producing oil or gas well will be included in the definition of Canadian development expense and will be eligible to earn depletion. Recompletion involves work necessary to maintain or extend the life of a producing well.

33. Recommendation

Encouragement of research and development into reducing energy costs.

Government Response (Agree)

The Government has introduced the Industry Energy Research and Development Program (IERD), which contributes 50 per cent of the total estimated cost of an approved project in the field of R & D aimed at new and improved processes and equipment to reduce energy consumption.

34. Recommendation

Establish appropriate incentives to encourage reduced energy consumption in the steel industry.

Government Response (Under review)

The Departments of Industry, Trade and Commerce and Energy, Mines and Resources will consider means of encouraging industry to exploit the large potential for improving energy efficiency that exists in some manufacturing and processing sectors.

RESEARCH AND DEVELOPMENT

35. Recommendation

Government-operated laboratories should be reorganized along industry sector lines.

Government Response (Under review)

The Department of Industry, Trade and Commerce, in conjunction with Canadian Steel Industry Research Association (CSIRA) will review this subject with departments concerned.

36. Recommendation

a) The recently-formed National Sciences and Engineering Research Council (Bill C26) should be organized along sectoral lines with representatives nominated by the sectors.

b) The "strategic" grants introduced in January 1978, and extended in June 1978, should be further extended, and the selection of areas of national concern should be made in consultation with industry sectors.

Government Response (Under review)

These recommendations are being brought to the attention of the National Sciences and Engineering Research Council.

It should be noted that a number of technology-specific incentives already exist, including EM&R's and IT&C's recently-announced energy R & D programs, individual department industrial R & D support programs in transportation pollution control and communications, the use of the granting of council funds to direct university research into areas of national priority such as energy, oceanography and the environment, and the recent decision to establish six regional centres of excellence to integrate government, university and industrial research activities. In addition, the industrial assistance programs of Industry, Trade and Commerce and National Research Council will fund special projects in any technological area.

The Ministry of State for Science and Technology is currently reviewing a number of key technological areas and will be selecting a number for further development in Canada which offer significant industrial potential and where Canada has, or can develop, comparative advantages, or where Canadian industry must be involved to remain competitive. The Ministry of State for Science and Technology will be proposing that additional funds be set aside for new and existing industrial R & D support programs and that, to an increasing extent, existing programs will give preference for projects in these selected areas.

37. Recommendation

The present tax incentives for R & D should be modified by increasing the "Investment Tax Credit" for R & D from a basic five per cent to 10 per cent, and by extending the base on the 150 per cent tax deduction from three years to five years.

Government Response (Agree in principle)

The federal government supports the goal of increasing Canada's R & D effort with emphasis on development and use in Canada. To this end, signicant income tax incentives for those engaging in any level of R & D expenditure have been combined with additional incentives for those increasing the R & D expenditures.

Under the present tax system current and capital expenditures on R & D qualify for a 100 per cent write-off in the year they are made. Since 1977, R & D expenditures have qualified for the investment tax credit. The budget of April 10, 1978, provided for an additional deduction from income for tax purposes of 50 per cent of the costs of R & D expenditures in excess of their average levels for the preceding three years. This deduction is to apply for a period of 10 years.

The budget of November 16, 1978, increased the basic rate of investment tax credit for R & D from five to 10 per cent. The rate of credit was set at 20 per cent in the Atlantic Provinces and the Gaspé. The credit will be extended indefinitely.

The budget contains a special provision to encourage R & D by small Canadian businesses. Such businesses qualifying for the low rate of corporation tax will get an investment tax credit of 25 per cent on all R & D expenditures irrespective of their location in Canada.

The total tax value of these special incentives for R & D (not including the 100 per cent write-off) is over $100 million per annum. In addition, the Government provides a variety of expenditure grants and subsidies for industrial R & D.

Extending the base for the 50 per cent incentive deduction would enrich the incentive. On the other hand a shorter base period is likely to result in relatively more of the incentive being provided for truly incremental R & D expenditures that would not otherwise have occurred. The three year base was the compromise adopted after consideration of the advantages of somewhat longer or shorter time periods.

38. Recommendation

The R & D section of the existing Enterprise Development Program (EDP) should be modified to result in a single R & D support program based on technical merit, risk, and potential to enhance the Canadian economy.

Government Response (Agree in part)

In the press release dated October 13, 1978, the Minister of Industry, Trade and Commerce announced that innovation projects which do not meet the EDP's test of significant burden on the company concerned, but which are sound and will not be undertaken in Canada without support, will be referred to Treasury Board for special approval.

PART III

RESPONSE TO LABOUR

In a letter of July 6, 1978, Mr. Gérard Docquier, National Director of the United Steelworkers of America, dissociated himself from the report of the Task Force. While approving the overall objectives of the Task Force he expressed the opinion that the resulting report "is clearly biased towards rather narrow industry interests". Mr. Docquier made these specific observations:

1) The report urges that enormous amounts of capital are required for essential expansion programs. I find this difficult to reconcile with the fact that the industry has been operating under capacity for the past few years.

   Government Response (Agree in part)

   It is difficult to arrive at a consensus about the optimum production capacity for the Canadian steel industry at a particular point in time. In 1976 and 1977 aggregate domestic demand for steel products was weak and the installed production capacity was quite adequate to supply the country's short-term needs. Now, two years later, domestic demand has outstripped Canadian capacity, and most basic steel products are on allocation.

2) The proposed expansion should be financed out of improved profitability, notes the report. But by most objective measures the industry has been doing quite well in comparison with other industries. In fact, most of the expansion of the three large integrated producers in Ontario has been made possible by this level of performance in that much of it has been financed from internal sources about equally divided between depreciation and retained earnings.

   Government Response (Agree in part)

   The government acknowledges the role of earnings in the financing of corporate expansion projects as indicated in the federal government's response to the Overview Committee. In the context of tax policy, "there is a divergence of views about the efficicy of tax incentives as a tool of economic policy. Business representatives felt that corporate tax reductions would encourage investment. Labour representatives felt that investment performance is constrained by low rates of capacity utilization, presumably related to insufficient levels of demand, and that corporate tax reductions would thus be ineffective."

The government cannot accept either view exclusively. It believes that there is a place for tax incentives to encourage particular sectors or activities as needed and to contribute to a longer-term environment that is condusive to private sector expansion. It also believes that monetary and fiscal policies, including tax policies, must be set to maintain a growth in private sector demand consistent with adequate real growth and satisfactory price and cost performance.

The recent budget contains both types of measures. The federal sales tax was reduced with a view to stimulating aggregate demand while, at the same time, minimizing upward pressures on prices and costs and supporting Canadians' real incomes. This cut was in addition to the increase in disposable incomes brought about by tax indexing, the increased employment expense deduction and the reduction in the contribution rate for unemployment insurance. A number of budgetary measures directed at providing incentives to particular activities were also proposed. Prominent among these was the enrichment of the investment tax credit and the R & D tax credit, their indefinite extension past June 1980 and the inclusion of transportation assets among those eligible for the credit. The government believes that such incentives will be a positive contribution to increased investment, to orderly planning of investment projects and to a more efficient transportation system.

3) The report's recommendations on the environment are contrary to my Union's policy that "polluters pay".

<u>Government Response</u> (Agree in part)

The government only accords to capital equipment required for this process the same tax treatment available to production equipment. However, the government has accepted the principle that some limited federal assistance is appropriate for research and development activity aimed at the broadening of pollution control technology. Expenditures for such R & D will qualify for assistance under the Department of Industry, Trade and Commerce Enterprise Development Program.

ANNEX I

MEMBERS OF THE CONSULTATIVE TASK FORCE ON IRON AND STEEL

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Mr. W. Walsh
Vice-President
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Mr. Tom Kent
President
Sydney Steel Corporation

Mr. E. Gerard Docquier
National Director
United Steelworkers of America(1)

Mr. R.W. Keyes
Chief Economist
Western Canada Steel

(1) The United Steelworkers of America have advised that, regretfully, they must disassociate themselves from the Task Force Report.

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Department of the Environment

Department of Industry, Trade and Commerce

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