



Cement
Association
of Canada

Association
Canadienne
du Ciment



Museum of Anthropology, University of British Columbia

Improving Canadian Competitiveness

The Cement Association of Canada's submission to the
Competition Policy Review Panel

January 11, 2008



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Introduction

The Cement Association of Canada (“CAC”) appreciates the opportunity to provide comments to the Competition Policy Review Panel, both on the Panel’s paper, *Sharpening Canada’s Competitive Edge*, and general comments on competition issues relevant to the cement manufacturing industry.

The CAC fully supports the Panel’s purposes, we feel that there are significant challenges facing the Canadian economy and these challenges are placing enormous pressure on our domestic cement manufacturing industry. It should be a key priority of the federal government, provincial governments and industry to improve competitiveness.

Some time ago, the federal government issued its economic plan, *Advantage Canada*, which provided an important framework for moving the economy forward. The plan proposed to focus on the reduction of business taxes; improvements to the regulatory and competitive framework; a leading edge financial system and greater openness to trade and investment. The CAC fully endorses these objectives. On the whole, the economic fundamentals in Canada are very strong, and the government’s management of these fundamentals should be commended.

But in today’s globally competitive environment, these actions alone are not sufficient. As recently as January 7, 2008, Bank of Canada Governor David Dodge stated that a slowdown of the U.S. economy in the first half of 2008 could have a worse impact on Canada's performance than was expected just a few months ago. As we shall illustrate, there are many economic forces operating both internationally and domestically that are challenging the competitiveness of business in Canada.

Companies operate under the principles of freely functioning, open and competitive markets, and we expect government policy to operate within the confines of those principles. Government interventions should improve free markets or remove those policies which reduce freely functioning markets. The Canadian economy also increasingly requires careful steering. But with that in mind, the federal government can assist companies in ensuring a business environment that enables Canadian industry to retain and attract investment, and make the crucial improvements they require to remain competitive and grow in global markets, or as the Prime Minister has said, “*to create the economic conditions that lead to success*”.

We hope that the collective submissions and research conducted by the Panel will result in actionable policies which will assist the federal government's *Advantage Canada* plan. We also wish that the Panel will examine how other countries are managing these challenges, and will identify best practices and assess how they could be adapted to the Canadian context. We urge the federal government to quickly adopt recommendations of this Panel which will allow business to adapt to global competitive challenges.

We also look forward to contributing and participating in the Panel's work beyond this submission.

The Cement Association of Canada and the Cement Manufacturing Industry

The CAC is the industry association representing cement manufacturers in Canada. Our members include eight companies with clinker and cement manufacturing facilities, granulators, grinding facilities and distribution terminals from Atlantic Canada to the Pacific Ocean. These companies collectively produce over 98 per cent of domestic cement supply, and export over a third of their total production, almost entirely to the United States. CAC is committed to a sustainable cement industry and to improving and expanding the uses of cement and concrete in Canada.

Cement is produced at 16 locations in five provinces, and distributed from 45 locations across the country. Cement is the key ingredient in making concrete. Concrete forms the foundation and superstructure of Canada's built environment and touches virtually every aspect of our daily lives. Canada's cement industry works to ensure the reliable supply of cement required to build Canada's network of critical infrastructure of roads and bridges, buildings and homes, water and sewage works, dams, and even to remediate contaminated sites.

Why the Cement Industry Matters to Canada

Canadian cement manufacturers make an important contribution to national and regional economies. During 2006, member companies produced more than 14.3 million tonnes of cement, worth in excess of \$1.7 billion. When both cement and concrete product sales are factored in, the industry was responsible for more than \$8.0 billion in annual sales, contributing over \$3.3 billion to Canada's Gross Domestic Product.

The manufacture of cement in Canada directly employs more than 2,000 Canadians and contributes to the further employment of more than 24,000 in downstream concrete mixing and sales. The indirect employment from cement and concrete is enormous; the distribution network through trucking, rail and great lakes and ocean shipping contributes many more well paid jobs. Cement and concrete are involved in almost all residential and commercial construction, as well as infrastructure, highways and even environmental remediation. As a result, there are hundreds of thousands of Canadian construction workers,

environmental engineers, architects and other professionals who, in part, owe their employment to the cement manufacturing industry.

Cement is an essential product. Globally, there is more concrete used than any other construction material, a fact which is also true in Canada. As a necessary ingredient in concrete, cement is fundamental to the construction of more sustainable and better performing roads, bridges, homes, buildings and energy infrastructure. There is little in fact built in Canada without cement as an essential component.

Canada traditionally has maintained a cement advantage. That advantage has been built on an industry that has ready raw materials and production in most parts of the country and excess supply through large export demand to the U.S. As a result, cement prices and a ready supply have aided cost effective and timely construction throughout Canada. Today however, the threats of reduced U.S. demand, the risk of foreign imports, costly and overlapping domestic regulations and energy costs, among other factors, threaten to eliminate Canada's cement advantage.

The absolute necessity of cement and concrete, through their fundamental properties and growing uses in sustainable construction, along with a traditional ready supply and low cost, means that cement is a highly strategic commodity. As well, as cement is a critical component of Canadian infrastructure, with growing opportunities for more sustainable and green applications, cement is a strategic infrastructure component.

The Government of Canada recently unveiled the details of the \$33-billion infrastructure plan, "*Building Canada*". The cement manufacturing industry will be a willing and necessary strategic partner in the *Building Canada* plan. If government and industry wish to maximize and leverage the benefits of their investments in the plan, it is vital that Canada maintain a cement advantage.

It is important to note that although Canada's cement export production is sold almost entirely to the U.S., cement is a globally traded commodity. The basic chemistry of cement is uniform, Canadian cement has no inherent quality or performance advantage over cement produced in foreign markets. Cement from Asia and southern Europe, transported by large bulk cargo vessels, is already being landed competitively at large import terminals in the United States.

The CAC believes that the government must ensure both competition and environment policies which will help ensure the stability and growth of the cement industry, as part of our contribution to stability and growth throughout Canada.

Challenges to Canadian and Cement Industry Competitiveness

In February of 2007, the House of Commons Standing Committee on Industry (“INDU”), in its Report to Parliament, outlined the challenges facing the Canadian manufacturing sector, and in particular challenges to the competitiveness of manufacturers. These challenges also negatively impact the Canadian cement manufacturing industry:

- (a) The rapid and continued appreciation of the Canadian dollar;
- (b) Continually and rapidly increasing energy costs;
- (c) New and increasing competition from emerging Asian economies; and
- (d) An onerous regulatory environment.

(a) *The Dollar*: The high Canadian dollar has made matters worse for Canada's manufacturing economy. Ever since the Canadian dollar bottomed out at 61.79 cents (U.S.) on Jan. 21, 2002, the Loonie has been driven up by the perception that the U.S. dollar was overvalued, by surging commodity prices, and by Canada's robust trade surplus. The Canadian dollar's recent peak at \$1.10 (U.S.) represents about a 75 per cent increase in value from its all-time low.

In 2006, our industry produced over 14 million tonnes of cement – of which, 38 per cent was exported to US markets. Almost no cement was exported to nations other than the U.S. The growing costs of ocean shipping make Canadian regular cement too expensive in long-distant markets. As a result of Canadian currency appreciation, all of Canadian export cement production became much more expensive in our single export market, the U.S. U.S. buyers are now actively searching for alternative, lower cost cement suppliers.

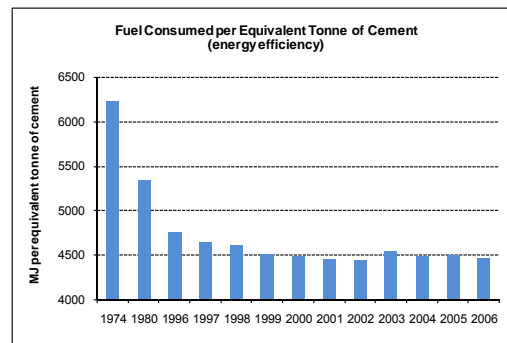
Economists have argued that the increase in the dollar may provide an advantage in that new technologies imported from the U.S., which make businesses more competitive, have become much cheaper, or that supplies and input costs have been greatly reduced, offsetting the loss of revenues from exports. Unfortunately, manufacturers of cement machinery and equipment are almost entirely located in jurisdictions outside of the U.S., where Canadian currency has appreciated very little or at all. Additionally, all of the raw materials, labour and energy costs for Canadian cement production are bought in Canadian, not U.S. dollars, eliminating any potential advantage. As long as the fundamentals of Canada's fiscal framework remain the strongest among the G8 nations, and as long as the oil-driven commodity boom continues, there's not going to be significant downward pressure on the dollar.

(b) *Energy Costs*: Cement manufacturing is a highly energy intensive process. The majority of energy used in the process is for fueling the kilns, where temperatures of 1,470 degrees Celsius are required to convert the raw materials into clinker. The entire process, from raw material extraction through to cement grinding and distribution, requires approximately 4.46 gigajoules (GJ) of energy

to produce one tonne of cement – this is an amount equivalent to about 150 barrels of oil. Energy needs account for approximately 38% of all input costs in the manufacturing process. However, of that 4.46 GJ, almost 4 GJ are thermal energy produced from fossil fuels, and only 0.5 GJ are required from electrical energy. The total energy costs are almost equal – 50% from thermal and 50% from electricity. The relative low cost of thermal (fossil fuel based) energy for over 89% of our total energy needs is fundamental to the competitiveness of the industry.

Cement producers are large purchasers of electricity, coal and coke. All of these energy sources have seen significant appreciation in price, with no end in site. Some economist have estimated that the price of electricity in Ontario will soar 60 to 70 per cent when the province replaces its coal plants with cleaner, more expensive sources of energy. Consumers, business and policy makers have no idea how much it will cost to make energy environmentally friendly under the Federal *Regulatory Framework for Industrial Air Emissions*, however everyone agrees that we will be facing sharp increases in electricity and energy bills.

As well, as we can see from the adjoining chart, the cement manufacturing industry has for many years been improving the energy efficiency of their operations, to improve competitiveness and by reducing costs. The ability to extract further energy efficiencies in the manufacturing process are now very limited, and industry can only expect to make marginal improvements to energy efficiency in the coming years.



(c) *Asian and Foreign competition:* A number of our foreign competitors, particularly those in India and China, do not face the same environmental constraints that already exist in Canada, let alone new regulations and costs, and gain additional competitive advantage from lower costs of production resulting from subsidy, fiscal policy and labour policy. Lower cost foreign exports are already being shipped to markets traditionally served by Canadian cement producers, eroding Canadian competitiveness and impacting Canadian jobs.

The share of total, all commodity Canadian exports going to the U.S. has fallen to 79 per cent this year from 87 per cent in 2002, while the share of our imports coming from the U.S. has fallen from a peak of 68 per cent to 54 per cent. It is competition from countries like China and India that has shaken the manufacturing sector to its core. With global cement production estimated to increase by 40 per cent by 2020, the decision-making by global cement companies for the location of new investments is highly competitive.

(d) *Onerous Regulatory Environment.* CAC members face the whole range of regulatory challenges. Municipal regulations are stringent on plant operations,

provincial environment, health and safety regulations, permits and procedures are also numerous and cumbersome. The *Canadian Environmental Protection Act* adds additional, and sometimes overlapping, regulatory requirements. At the sales end of the cycle, cement producers face interprovincial issues and cross-border tariffs and regulations. Governments at all levels must take every opportunity to simplify regulations, reduce the cost of regulatory compliance, eliminate duplication and inconsistencies in regulatory requirements, and eliminate regulatory restrictions on trade and labour mobility across Canada and across the Canada-U.S. border.

The Federal *Regulatory Framework* also introduces the risk of an unachievable regulatory burden on the cement industry. Harmonization and streamlining of federal and provincial regulations is central to ensuring an efficient regulatory framework, in line with the *Cabinet Directive on Streamlining Regulation*, announced in *Budget Plan 2007*. The Government of Canada should ensure that the principles outlined in the *Cabinet Directive* are applied in developing the *Regulatory Framework for Industrial Air Emissions*.

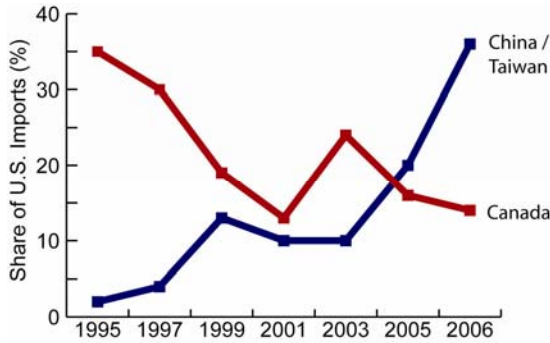
(e) *The U.S. Business Environment*: Since almost all of Canadian cement export production is sold in the U.S., it is important that we examine in greater detail some of the challenges that are present in the U.S. On January 7, 2008, David Rosenberg, the Canadian-born chief economist of Merrill Lynch, proclaimed that recent dismal employment data suggest that a recession has already arrived in the U.S. The U.S. sub-prime mortgage debacle, along with associated liquidity problems, has caused a major downturn in new residential and commercial construction, which is reducing demand for Canadian cement. Rapid growth in household and government debt, a growing current account deficit, and a financial imbalance between Asia and U.S. means it is difficult to see how the current situation will correct itself quickly.

This is not the end of the challenging news for Canadian producers. Currently, the U.S. cement industry has 21 million tonnes of new capacity slated to come online by 2011. This new capacity alone far surpasses Canadian total capacity, and could easily offset Canadian imports if they become less competitive, particularly with U.S. demand in retreat. The recent protectionist sentiments from Presidential hopefuls is also a disturbing sign, along with existing border security issues which impedes cross-border commerce.

The Results of Current Competitive Challenges on the Cement Industry

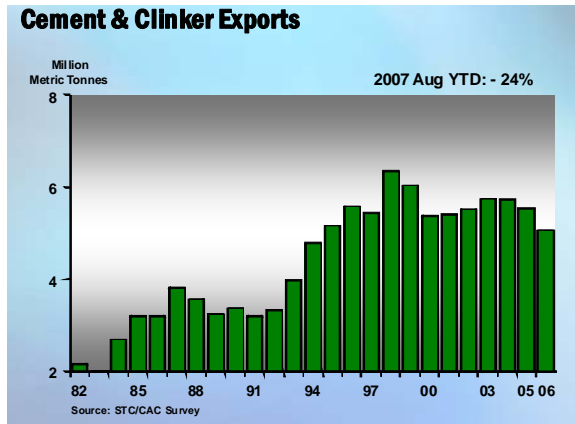
Many have called the intersection of so many negative forces a “perfect storm” facing Canadian manufacturers. This is not an understatement. To illustrate how these forces have already taken their toll on the cement manufacturing industry, Canada’s share of the significant U.S. cement import market (the U.S. relies on imports for over 25 per cent of domestic demand) decreased from nearly 40% in 1995, to just 14% in 2006, while Asian nations’ share of the U.S. import market grew from negligible amounts to more than 40% of all U.S. imports over the

same period. These emerging trade patterns are a concern for Canadian cement manufacturers' presence in both the domestic and export markets.

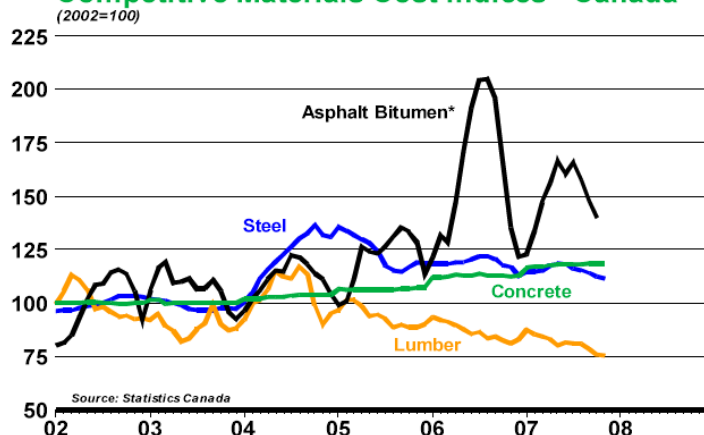


| | 2004 | 2005 | 2006 |
|---------------|-------|-------|-------|
| Asia | 29.5% | 36.0% | 53.9% |
| Canada | 21.1% | 16.0% | 14.1% |
| Europe | 19.7% | 18.5% | 13.0% |
| Latin America | 20.9% | 17.4% | 11.4% |
| Mexico | 5.3% | 6.5% | 6.3% |
| Other | 3.6% | 5.5% | 1.3% |

As we can see from the chart to the right, Canadian exports are already in retreat. With the global and U.S. trends not likely to change for the foreseeable future, it is imperative that the industry and governments provide a more competitive framework here in Canada. From the chart below, we can see another disturbing trend for the cement manufacturing industry. Domestic regulatory and competitive challenges are making cement less competitive versus competing construction materials. It is vital not only for the Canadian cement industry, but for the ongoing strategic role of cement in Canada's growth and infrastructure plans that domestic policies do not negatively effect one industry over another, as may be the case for example by virtue of the details of the Federal *Regulatory Framework*.



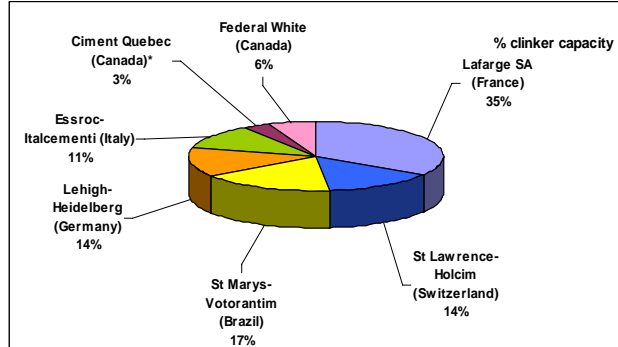
Competitive Materials Cost Indices - Canada



Consultation Paper Questions: Canada in a Global Context

CAC members provide both a unique and global perspective to the issues of multinational corporations, foreign investment, consolidation issues and regional head offices. Of the total Canadian production, only about 10 per cent is directly owned by Canadians. The other 90 per cent is owned by very large, multinational companies which have cement operations on all continents and in most countries, and are heavily invested in other aspects of construction and construction materials. Although almost all of Canadian cement exports are sold in the U.S., none of the Canadian cement makers are owned by a U.S. company or parent.

Canadian Cement Plant Ownership



Question #1: It is important to note in the currently highly charged rhetorical atmosphere regarding foreign ownership that the process of globalization has been going on for over a half of a century. Globalization is the dominant economic force, and the wealth generated over the past half-century is an indication that this process has been beneficial and should continue.

The “hollowing out” debate which has been raging has more often than not been used by various parties as a political tool for political purposes. This is abundantly evident in the number of non-economic players who are often quoted in the media providing their opinions. In freely operating markets, capital inflow and outflows will naturally vary from year to year, so any particular citation of a particular year’s net outflows is not a useful indicator for any purpose.

In our view, the two most important factors are the relative freedom of Canadian players to operate and invest in international markets and the relative freedom of international players to invest in Canada. The result of a level playing field is healthy growth and competitive business throughout Canada and resulting consumer choice. The role of the federal government should be to examine the Canadian competitive context against international standards and make adjustments where necessary to improve Canadian competitiveness.

We offer the cement manufacturing industry as a model of foreign investment success. Almost all of the domestic cement production is owned by interests outside of Canada, but the industry has been healthy and has provided Canada with a domestic cement advantage. We agree with a recent comment made by the Hon. Jim Prentice, Minister of Industry; “*Our government’s concern is not with*

the ownership of the foreign capital being invested in this country but rather with how that capital behaves in the marketplace”.

That is not to say that Canadians should not be concerned about foreign ownership and control. The role of the federal government should be to protect against market participants whose motivations are to manipulate free market conditions. Example of this are national companies which seek industrial trade secrets or to exercise monopoly control over domestic markets. In this context, the CAC is not opposed to a national security clause review.

Question #2: Once again, the issue over the location of head offices has largely been about political agendas and based on populist arguments. We recognize that head offices offer economic spin-offs, but the more important measurement is always healthy industry and healthy employment. The focus on head office location is a “cart-before-the-horse” type of argument. Secondly, we must examine the domestic conditions that are necessary to attract companies to locate in Canada. Once again, this means Canadian levels of governments must examine their competitive conditions against those in the rest of the world.

The cement manufacturing industry has a mixture of head office designations. In some cases the global headquarters are located here, in some cases they are not, but significant divisional head offices are located here. In a perverse way, the overabundance of federal and provincial regulations and red tape often means that considerable head office requirements need to be located in Canada. This is not a healthy solution for attracting investment - head office determinations should never be made because of red tape or government requirements. The CAC members have all been excellent corporate citizens, which actively participate in communities. The head office debate should be at best a secondary focus of government.

Head office location has some importance, but the location of tax paying employees is more important. The health and competitiveness of business operating in Canada should always be government’s primary consideration.

Question #3: Recently, the Hon. Jim Flaherty, Minister of Finance identified three major ways he wants to improve Canada’s investment climate and attract foreign capital - by reducing business taxes, by increasing the ability to invest in Canadian infrastructure, and by improving securities regulation and enforcement. We concur with these approaches, but we would add to this list:

(a) *Taxes:* According to a 2006 Finance Department paper, “*The degree to which Canada’s tax system can compete with that of our southern neighbour and other developed nations is vital...Though Canada is currently experiencing strong economic performance, much of this is linked to a strong commodity market... More long-term strategies, including a competitive tax system, are necessary to sustain and sharpen Canada’s competitive edge.*” The percentages of the two national economies represented by taxation show the U.S. is well

ahead of Canada. While Canada's burden reflects 40 per cent of the economy, the U.S. burden reflects 32 per cent. All governments in Canada have to create a tax system, including corporate and personal, that is as competitive with, if not more competitive than, other countries to attract and retain businesses and employees. Simply stated, income and corporate-profit taxes penalize productivity, and productivity is a cornerstone of competitiveness.

Tax rate reductions encourage greater work effort, investment and risk-taking without governments putting themselves in the position of picking winners from losers, a task at which they rarely succeed. Additionally, federal and provincial targeted tax relief has clear political gains, but it comes at the expense of more productive broad based relief. Governments need to pursue the objective of having a simple, transparent and fair tax base with low, internationally competitive tax rates.

The ability to maintain the competitiveness of Canada's industrial sectors is critical to ensure continued economic growth and prosperity. Canada's tax system must be developed in a manner that keeps pace with the business realities of operating in a highly globalized economy. A competitive business environment in Canada is central to the ability of Canadian industrial sectors to compete both in international markets and with international imports in our domestic market.

The Government of Canada must overcome the corporate tax disparity between Canada and other member nations of the OECD on a priority basis. Canada has the second lowest indirect tax rate amongst OECD countries and fourth highest corporate tax rate. The average corporate tax rate amongst OECD countries is 27.8 per cent and in Canada 36.1 per cent – Canada's corporate tax rate ranges from 32.0 per cent to 38.1 per cent, depending on the province. Given this competitive disadvantage to investment and considering the host of issues currently threatening manufacturers, the Government of Canada must act immediately to ensure the future of Canada's industrial and manufacturing sectors.

The federal government recognized the importance of a competitive tax environment as shown in the tax reductions offered in the fall *Economic Statement*. However, the CAC concurs with the recommendation of the Canadian Manufacturers and Exporters ("CME"): "*we urge the government to work constructively, together with the provinces, to lower the combined tax rate paid on business income to 22% within three years. The federal general corporate tax rate should be reduced to 15%*".

Prime Minister Harper promised on November 8, 2007, that to maintain and enhance Canada's prosperity over the long term, his government would develop "*one of the most competitive and attractive tax environments on the planet.*" We applaud this goal and hope that this Panel will recommend accelerating corporate tax reductions.

There are also other tax measures which should be addressed. The CAC feels that attempts to limit Canadian companies from deducting interest incurred from loans used to finance foreign operations is an issue that needs to be re-examined in light of global realities in business practices. It is increasingly the case that goods are exported and re-imported for further value added before final sale, in which case global operations are legitimate destinations for investment which should receive favourable tax treatment. We also call for the remaining provinces to eliminate capital taxes immediately.

Canada has one of the highest marginal effective tax rates of all the OECD countries, in part because provinces levy sales taxes on such business inputs as machinery and the equipment that companies need to increase their output. Under a harmonized tax, firms would not pay that levy on capital equipment, a move we believe would encourage investment. The last federal budget said that if the five remaining provinces with their own retail sales taxes adopted a harmonized value-added tax, it would reduce Canada's marginal effective tax rate by 6.2%, pushing it toward the lowest in the G7. A reduction of this magnitude would have a significant impact on the competitiveness of Canadian business and the standard of living of Canadians.

The federal government introduced measures to help the struggling manufacturing sector by accelerating capital investment write-offs to the tune of more than \$1 billion over several years in order to encourage investment in new machinery. To date, opportunities to make strategic adjustments to Canada's fiscal regime, such as accelerated capital cost allowance, remain underutilized and must be further explored. The Government of Canada should ensure that in implementing fiscal policies to support a competitive business environment, these policies take into account the investment planning cycle of the targeted business sectors.

The two-year timeframe of the accelerated capital cost allowance provided in *Budget Plan 2007* provides a marginal opportunity for Canada's cement industry to realize its intended benefits due to time required to plan, obtain financing and implement new investment decisions. But it should be extended for at least five more years. As well, the range of machinery and equipment which is eligible must be re-examined not to exclude certain important industry or types of machinery and equipment.

(b) *Infrastructure*: In a Conference Board of Canada survey, more than 80% of foreign multinational executives surveyed indicated that the poor state of business infrastructure adversely affected Canada as a destination for foreign direct investment.¹ One of the key concerns of CAC members is the state of the country's physical infrastructure. Canada requires modern and reliable public

¹ The Conference Board of Canada, "Open For Business? Canada's Foreign Direct Investment Challenge", June, 2004.

infrastructure, including transportation, telecommunications and energy networks and improved trade corridors, particularly to U.S. markets. As well, Canadian cement manufactures are heavy users of the Great Lakes and St. Lawrence Seaway, whose port facilities require improvement. We recommend that government expedite investments in borders, ports, ice-breaking, security and transportation infrastructure based on a national logistics strategy aimed at ensuring the efficient flow of goods between Canada and our largest trading partner, the U.S., while making Canada the preferred logistics hub for trade between North America and the rest of the world.

It is now half a century since the Trans Canada Highway and U.S. Interstate systems were built and as recent events have reminded us, many of these structures are maturing at a dangerous rate. The Government of Canada has however made and announced significant investments in infrastructure, through the *Building Canada* plan, and also with targeted investments in trade corridors, such as the *Ontario-Quebec Continental Gateway and Trade Corridor*. These investments are vital and we urge the Panel to recommend quick action by the government to complete these investments. We encourage the development of public-private partnerships for the investments proposed in the *Building Canada* plan.

(c) *Common Securities Regulator*. Our country is the only one in the industrialized world that would consider asking firms to fill out 13 different sets of provincial and territorial documents to raise money here. While that might have made sense back in 1867 when the Constitution gave the provinces power over securities, it makes no sense at all today. If Canadian companies can go elsewhere to raise capital more cheaply and with less fuss, they will. And that means Canada is losing opportunities and business to financial centres like New York and London, all because we continue to support an outdated form of regulation.

Co-ordination and sharing of information are serious impediments to catching and convicting criminals in a system where 13 jurisdictions operate independently and often use different police forces to conduct their investigations. We need to do a better job in protecting investors against breaches of securities laws.

The consequential impact on investor confidence is a key contributor to a "Canadian discount" that hikes the cost of raising capital in this country compared with the U.S. and other jurisdictions. This discount has wide consequences, trimming Canada's annual economic output by billions of dollars a year. It is very simple, uniform securities rules for the country will put Canada in a more competitive global position to attract investment dollars.

We feel that the "passport" model, which creates a virtual, single regulator by allowing publicly-traded companies to apply the rules of one province in another,

is a half measure and doesn't go far enough to eliminate red tape or the "Canadian discount".

(d) *Environmental Regulation*: The issue of climate change has taken on the importance of an issue not seen for years in Ottawa, not since the Free Trade debates. What is important to remember however, is that as far as economic consequences are concerned, and for competitiveness, the climate change issue is also an energy, economic and competitiveness issue. Climate change and clean air are important issues to Canadians and our industry. Several steps in the cement manufacturing process release significant quantities of greenhouse gas emissions.

Canada's cement manufacturing industry takes its responsibilities to Canadians and our environment seriously. The cement manufacturing industry understands the importance of addressing climate change and is committed to reducing the impacts of its operations while maintaining and improving its contributions to a competitive economy and a healthy society.

The Government of Canada is currently designing regulations under the *Federal Regulatory Framework for Air Emissions*. With the absence of a complimentary financial incentives framework, the *Regulatory Framework* poses a further threat to the competitiveness of Canada's manufacturing sector, including the cement manufacturing industry.

The Canadian cement industry is in favour of fair and free international trade in which there is no environmental dumping from countries and regions with lesser environmental standards or international commitments. The CAC is concerned that emissions and production leakage could occur as a result of greenhouse gas emission regulations being considered by the Government of Canada and various provinces. The implementation of such greenhouse gas regulations is expected to increase the cost of cement manufacturing in Canada.

With the globalization of the trade in cement and cement products, cement is increasingly a (relatively) low-cost product with tight operating margins. In such a competitive market, environmental regulations that impose significant costs on domestic producers may have the effect of shifting production from Canada to less controlled and therefore (presumably) lower cost jurisdictions such as China. In addition, the federal and provincial governments must do whatever is necessary to avoid duplication and overlap of their shared jurisdiction over the environment. All parties must find a way to have simple and predictable regulations.

(e) *Energy Prices*: The CAC understands that market forces shape the price of energy supplies, but if Canada truly is an "energy superpower" then the price of energy in Canada should be very favourable versus many of our trading partners. There is a role of the federal and provincial governments to play which does not result in direct intervention in the markets. For example, governments must take

a leadership role and make the investments required in order to ensure that Canadian industry has access to a reliable and a cost competitive energy supply now and in the future. A green, east-west power corridor would be a major investment which could improve energy cost competitiveness.

Some effort should be directed at removing regulatory barriers to the implementation of innovative emission reduction technologies, such as resource recovery and energy from waste. Alternative and renewable energy sources are by-products from other industries and include wastes such as scrap tires, used oil, and biomass materials. Experience to date tells us that, when burned properly, these fuels represent an important and environmentally beneficial substitution to fossil fuels. By using other industries' waste products, we can divert waste from landfill, produce fewer air pollutants and greenhouse gas emissions, and conserve virgin resources. Increasing the use of alternative fuels is important for the competitiveness of Canadian industry and for achieving our desired environmental goals.

The CAC and its members are eager to work with federal and provincial regulators and local stakeholders to address barriers to the use of alternative and renewable energy sources in order to maximize the benefits derived for society and the industry.

(f) *Government Spending*: More indirectly, but growing government spending affects the ability to pay down the debt and direct funding to programs which support a competitive economic environment. From the last two federal budgets, the federal government has increased program spending by \$25 billion, and raised the amount of GDP consumed by federal programs from 12.8 per cent from January, 2006 to 13.4 per cent. As well, since 1999, the cost of the bureaucracy has increased by an alarming 50%². There is no evidence that Canadians are receiving 50% better government as a result of this rapid expansion in the public sector. It's time the federal government to roll back the bureaucracy to 1999 levels and used the billions saved to fund significant cuts to income tax. We also feel it is time for close examination of a policy that benchmarks federal spending to a percentage of economic output.

(g) *Equalization and regional subsidies*: The Canadian tradition of regional subsidies is a fundamental cause of productivity and competitiveness problems in Canada today. The equalization/subsidy system, especially equalization, has greatly damaged the economic development of certain regions by insulating their businesses from changes and market forces. We feel that a low tax, low regulatory environment will better foster regional growth and competitive business environment.

Similarly, fair and predictable equalization payments are fundamental to creating a level playing field and a more stable fiscal environment for business. We feel

² Ottawa Citizen, "Cost of swelling PS skyrocketers", July 30, 2007

the federal government's commitment to provide transfers outside of equalization on a per capita basis, was a step in the right direction.

Question #4: It has been Canadian policy for many years to recognize open trade and economic integration, and to foster trade relationships around the world. Before examining our outward trade policies, Canada needs to address the issue of free trade within our borders.

The development of an open and efficient internal market is essential if Canada is to be competitive in the global economy. Several provinces have already taken steps to further reduce barriers to the free movement of goods and labour within Canada, and it is important that federal and provincial governments build on that work. We applaud Quebec and Ontario in signing an agreement in November, 2007, to start talks to remove interprovincial trade barriers. Similarly, Alberta and British Columbia are to be commended for establishing the *Trade Investment Labour Mobility Agreement*.

It is imperative that governments cooperate better and remove the barriers to competitiveness and efficiency within Canada's economic union. It is simply unacceptable that there are fewer international barriers to trade and mobility in the European Union than there are here in Canada. A strong and prosperous economic union is essential if we are to remain ahead of the productivity and competitiveness curve. The CAC is also concerned that regional environmental initiatives, between provinces or between provinces and states, will result in damaging freely moving interprovincial trade.

The Wise Persons' Committee, under chair-man Michael Phelps, looked at the issue in 2003 and judged that the federal government has the constitutional trade and commerce authority to pass legislation regulating all capital markets in Canada, and perhaps removing interprovincial trade and mobility barriers. We encourage the federal and provincial governments to remove these barriers voluntarily, however we support a closer examination of federal authority to pursue solutions through federal constitutional authority.

With respect to Canada's outward trade policy, a key to Canada's future success is the opening of new markets for Canadian goods. The *Advantage Canada* plan announced a new integrated approach to international trade policy that will be part of the federal government's global commerce strategy. The CAC fully supports this approach and recommends the government pursue policies which are geared toward the promotion of Canadian outbound investment.

However, our most important trading partner is the U.S., and there still remains much work to be done to improve the environment for trade with them. Governments must work towards the elimination of both tariff and non-tariff and regulatory barriers to Canadian exports and investment.

The Conference Board of Canada has suggested that Canada has maxed out the advantages to be had from its free-trade agreement with the U.S. It is now time to consider the next steps in improving our relationship with the U.S. The creation of the North American Competitiveness Council (NACC) is a great example. It facilitates public-private consultations on issues of competitiveness and it allows for strategic, longer-term approach to improving regional competitiveness.

The CAC believes that the various levels of government must consider the issue of regulatory convergence. The *Advantage Canada* plan states that action should be taken to make regulation more competitive through the adoption and mutual recognition of international standards. National and international climate change regulations are important examples of how regulatory convergence should be a priority for all governments.

The federal government should also continue to have discussions relating to the Security and Prosperity Partnership (“SPP”). The goals of the SPP, to integrate and advance the economic agenda of the North American free-trade agreement and the security agreements that came after Sept. 11, 2001, are important. Any forum that brings together U.S. and Canadian decision makers should be pursued.

We feel that it is also an appropriate time for NAFTA partners to consider a customs union. A customs union would bring North American laws and regulations closer to a single economic market, and would reduce the cost and obstacles of doing business in North America and facilitate further economic integration.

There are numerous complicated arrangements that would be required for a North American customs union, and significant political challenges. That is why governments need to begin work on this important initiative. The process itself would foster a better relationship between nations which can only help improve Canadian competitiveness.

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| Consultation Paper Questions: Investment Policies |
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Question #1: As the Panel’s Paper points out, the *Investment Canada Act* (“ICA”) is a law which requires continuing analysis for changing global economic conditions. A primary focus of any investigation of the Act should be an examination of investment legislation in other jurisdictions. Free and open economies should strive for harmonization of investment regimes, so that capital may flow freely.

In addition, Canada’s productivity is directly related to investment, including foreign direct investment. The government’s position should always be to welcome foreign direct investment and to ensure that the process for investment

is transparent and which minimizes regulatory hurdles, costs and delays. That is no to say that there isn't a role for government to examine investments which are not in the nation's interests, but those examinations should be constrained to investments which seek to pervert free market forces. We feel the "net benefit" test should remain a tool in the ICA, but regulators must strive to be objective, transparent and striving for predictable outcomes for applicants.

Question #2: There are several areas of merger and acquisition law which are treated differently in Canada than many other jurisdictions. These issues are significant in that they may alter management investment decisions.

The fiduciary obligations placed on directors in advising on acquisition bids generally focus the directors on the short term benefit to shareholders and not on the long term interests of companies subject to takeover bids. It is important that directors be on a level playing field with their counterparts in other firms. As well, several jurisdictions give firms the right to adopt indefinite poison pills, however in Canada it is only a matter of time until a poison pill has to be dropped. Similarly, Some jurisdictions provide a much more flexible merger and acquisition review period. We believe the government should have more flexibility in order to properly explore possible options which may be of greater net benefit than those proposed.

The CAC believe that Canadian firms, and their directors, should not be in a disadvantageous position with international firms when seeking to acquire, or seeking to be acquired, by those firms.

Consultation Paper Questions: Sectoral Investment Regimes

Question #1: A key to Canadian competitiveness is access to world class financial services. Currently, the Government of Canada maintains several restrictions on financial service firms. Specific sectoral ownership restrictions in financial services are generally not practiced in foreign competing jurisdictions. Free and open competition in financial services is a goal that should be pursued, while not putting in jeopardy consumer protection. We feel that increased globalization may require fundamental changes to Canada's financial sector, changes which may include consolidation. We urge the government to proceed with open examination of improving Canada's financial services sector.

Consultation Paper Questions: Competition Law

Question #1: As with the ICA, we urge the government to examine the *Competition Act* in light of increased globalization and the laws in other jurisdictions.

Competition law is not what brings the benefit of competition to the marketplace, those benefits come from the interaction of market participants. As a result,

competition law should only seek to intervene in the marketplace under very narrowly defined circumstances and when doing so should be transparent and acting in a non-discriminatory manner.

If Canadian operations are to compete on an increasing global scale, then these companies must be allowed to achieve the economies of scale that size brings. The Canadian economy is relatively small, and most of our domestic companies are small to medium size. The rate of globalization means that many of these firms will never achieve the growth required organically, and will seek to acquire firms or be bought themselves. Scale and competition leads to research and development, innovation, efficiencies, product innovation and pricing, consumer choice, convenience, and generally an increased standard of living.

Consumer protection should remain a priority of the *Competition Act*, however regulators must recognize the consumer benefits that increased size and global competition bring during their evaluation of mergers and acquisitions. The real threat to consumers in a globally competitive market is the failure of domestic firms to become competitive. The Competition Bureau must reflect the changing realities of balance of global growth and vigorous competition. Consolidation is a dominant reality in globalization. We need competition policy that fosters global players, not domestic giants.

Other Issues: Another related issue is the competitive environment of rail shipping in Canada. Due to the relatively low price per volume ratio of cement, along with the fact that there is production of cement in five of the provinces only, transportation costs are a significant share of the delivered cost of cement. Reliable, cost-effective rail service is critical to the competitiveness of Canadian cement manufacturing.

Analysis conducted for the Forest Products Association of Canada has provided some evidence that Canada's railways can use their market power to earn excess profits from their industry with returns from captive shippers well above that required to attract the capital needed to invest in new infrastructure.

It should be a responsibility of the federal government to limit the market power on the natural monopoly present in some areas of rail transport in Canada by introducing competition or regulating the prices or profits of monopolists. To the extent that there is ineffective rail competition and ineffective shipper remedies, Canadian competitiveness is put in jeopardy for those relying on rail transportation.

The CAC recommends that the federal government take action to introduce effective pro-competitive remedies for rail freight shippers in the *Canada Transportation Act* including a strengthened final offer arbitration process.

Consultation Paper Questions: Talent, Capital and Innovation

(a) *Personal Income Taxes*: If Canada wishes to attract and retain the best and brightest individuals, which will be the key to driving innovation and productivity, Canada must offer potential employees a competitive personal income tax environment.

(b) *Research and Development ("R&D")*: Ongoing R&D is a key component of the Canadian cement manufacturing industry. Cement manufacturers collaborate both nationally and internationally to better understand the environmental impacts of their operations and the best technologies to reduce these impacts. Through the U.S.-based Portland Cement Association ("PCA"), Canadian and U.S. cement manufacturers are collaborating on over 30 R&D projects concerning energy and environmental issues. Individual member companies also invest substantially in independent energy and environmental R&D activities, within Canada and abroad.

Federal Scientific Research and Experimental Development (SR&ED) Tax Credits are a key public policy measure to promote R&D which leads to improved competitiveness. The CAC believes that The SR&ED Tax Credit should be fully refundable, and the refund should be extended to all companies operating in Canada, not just Canadian controlled private corporations. The performance of R&D is a national goal and should not be related to the taxable income status of the company performing the R&D. As well, the Credits should provide an allowance for international collaborative research and development and consideration should be given to a threshold percentage of research which much be conducted within Canada but which would not exclude components of research being conducted by the same company elsewhere.

(c) *Education and Training*: The federal government has made important investments in encouraging young minds and retraining of workers displaced in the forestry and manufacturing sectors. We encourage all governments to continue to find creative ways to help Canadians adapt quickly to new global realities.

(d) *Corporate Law*: Currently, every province has jurisdiction over incorporations and corporate law. Corporate laws, governing important issues such as director liability, are not uniform throughout Canada. This creates another layer of uncertainty, and along with securities law harmonization, the provinces should pursue corporate law harmonization.

Other Issues

(a) *Cement Industry Analyst*: Until recently, the federal Department of Natural Resources employed one full time analyst dedicated to the cement industry in their Minerals and Metals Branch. The CAC feels that it is vital, for such an

important strategic commodity as cement, that the federal government should employ qualified professionals to examine the science, industry and energy issues relating to our industry, and to employ such individuals at Natural Resources Canada and Industry Canada.

(b) *House of Commons Standing Committee on Industry, Science, and Technology*: We urge the Panel to recommend to the government that, on an urgent basis, it should implement the recommendations unanimously agreed by all parties in the report on manufacturing competitiveness tabled in early 2007 by the House of Commons Standing Committee on Industry, Science, and Technology.

Conclusion

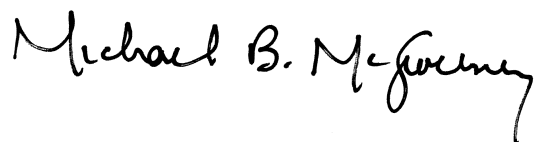
While many economic fundamentals in our country remain strong, we feel that there is no better time to address the many challenges that our economy is facing. The threats to economic activity are real, they are potentially severe, and they are current. Governments and industry must act quickly to address the growing competitive deficit in Canada.

Our comments provided in this submission have been focused on those steps that all levels of government must take to begin immediate steps towards improving the ability of firms, including those of the cement manufacturing industry, to adapt to new global realities.

The Cement Association of Canada believes that the process undertaken by the Panel represents important and vital work in delivering insight and recommendations on improving Canada's competitiveness an ultimately Canadians' collective standard of living. It is our sincere desire that resulting recommendations are adopted as part of the Government of Canada's *Advantage Canada* plan.

We hope that the recommendations and observations provided to the Panel from this submission have also been useful. We look forward to continuing dialogue and ongoing participation with the work of the Panel.

Respectfully Submitted,



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