

Submission to the Department of Finance on
Border Carbon Adjustments



Submission of United Steel, Paper, Forestry, Rubber, Manufacturing, Energy, Allied Industrial and Service Workers International Union (“The United Steelworkers” or “USW”)

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INTRODUCTION

The United Steelworkers (USW) welcomes the opportunity provided by the Government of Canada to share its perspective on the development of a potential Border Carbon Adjustment (BCA).

The USW represents over 800,000 members across North America, including 225,000 active members in Canada. While we represent workers in virtually every sector of the economy and in every geographical region of the country, the historical base of our union has always been in resource extraction and manufacturing, sectors today which are classified as emissions intensive trade exposed sectors (EITE), such as steel, aluminum and cement. As our key trading partners, such as the EU, aim to implement a BCA by 2023, and our American counterparts continue to explore the idea of a BCA (potentially via Section 232), we are encouraged by the Federal government's interest at the potential development of a BCA which is focused on achieving our climate policy targets and protecting employment. The Steelworkers support the development of a BCA in Canada.

MOTIVATING OBJECTIVES: ACHIEVING OUR CLIMATE GOALS AND PROTECTING WORKERS

Preventing Carbon and Employment Leakage and Sustaining Domestic Firm Competitiveness

From the perspective of the USW, the primary objective for the introduction of a BCA is to prevent and reduce the risk of carbon leakage and associated employment losses. While we understand the need for and support strong climate action, many of our members' jobs could be at risk as a result of emissions reductions plans.

A BCA inevitably seeks to sustain firm competitiveness by ensuring a degree of climate cost consistency for market actors. The primary motivation of a BCA is to ensure that all market participants in particular product markets face the same or similar carbon costs. Domestic companies incurring carbon costs may compete with foreign businesses that do not face equivalent carbon costs. BCAs can help ensure that imported goods face the same carbon costs as domestically produced goods. BCAs can also ensure that domestic goods face similar carbon costs to foreign goods in export markets by rebating carbon costs where applicable.¹

¹ Aron Cosby et al, "Enabling Climate Ambition: Border Carbon Adjustment in Canada and Abroad," International Institute for Sustainable Development/Clean Prosperity, July 2021.

In highly competitive industries such as EITEs, where domestic firms that are subject to carbon pricing compete with foreign firms who are not, firms that are subject to carbon pricing and other climate policies may be unable to fully pass on the costs of to consumers, or reflect these costs in market prices. This inability affects profitability and competitiveness and can incentivize companies or investors to move production to jurisdictions not only with lower costs, but little to no environmental regulation associated costs. The effects are twofold: net emissions are not reduced; rather, they are just emitted in a different jurisdiction. Secondly, domestic employment is also- and most likely definitively- lost and potentially gained elsewhere.

This is a real and present danger with recent analogous historical precedence. Since 2000, employment losses in EITE sectors (excl. extractive industries) lost 183,000 jobs. The vast majority of those employment losses (64%) came from three sectors; metal, motor vehicle and aerospace manufacturing. In addition, employment in those three sectors alone contracted by nearly 30%, while primary metal saw a decline of 40%. (see Appendix)

Certainly, the reasons for employment losses in these domestic sectors are numerous and perhaps primarily driven by the “macroeconomic side-effects of the resource boom”² in addition to other global developments.³ However, the expansion of free trade and with it the opening up of low-wage jurisdictions combined with improvements in logistics and production organization have given investors and companies the technological ability to engage in what former CEO of General Electric, Jack Welch called, “barge economics”⁴- the ability of firms to float between countries to take advantage of lowest costs. Given the recent historical trend in employment losses resulting from the practice of “barge economics” the institution of a BCA is a necessary component in not only reducing carbon leakage, but the associated employment leakage, as a result of the diverse global jurisdictional response and non-responses regarding climate policy and associated cost differences. Preventing leakages, both carbon and employment, via a BCA is ultimately a result of ensuring the competitiveness of domestic firms is sustained in the face of carbon pricing.

CONSIDERATIONS

Downstream costs

²Jim Stanford, “A Cure for Dutch Disease: Active Sector Strategies for Canada’s Economy”, Canadian Centre for Policy Alternatives, 2012,

³ The intervention of state led non market intervention in the steel industry in the mid 2000’s has significantly contributed to the current and persistent issue of global oversupply and capacity

⁴ Thomas Palley, “Jack Welch’s Barge: The New Economics of Trade”, Economist’s View, 2007.

The Canadian economy is an open one and heavily dependent on trade. Our exports represent approximately 32% of GDP, while imports represent 33.5%.⁵ As a producer and exporter of primary materials and fuels primarily, Canada is reliant on its trading partners for foreign capital goods and machinery and electrical goods in particular.⁶ Despite being predominantly an exporter of raw materials and intermediate goods, Canadian imports of these products in the earlier stages of processing also comprise nearly a quarter of our imports, a non-negligent portion.⁷

If the objective of a BCA is to prevent carbon and employment leakage, then targeting a BCA on those sectors which are most subject to leakage, namely those that have high emissions intensity and are particularly trade exposed, should be targeted. As Cosbey et al explain, “Emissions intensity is important because the higher it is, the more impact any domestic carbon pricing will have on costs. Trade intensity is important because the higher this is, the less able a sector is to pass through those increased costs to consumers; if it tries, it will be undercut by foreign competitors.” Many of these sectors will be concentrated relatively upstream in the value chain, such as primary producers (steel, aluminum, oil and gas, chemicals) and processors (smelters, refining, first use fabrication) where emissions intensity is particularly high and so too is trade exposure. As such, it would make sense to concentrate a BCA on those sectors. However, as Cosbey et al note, those beyond the BCA cut-off would face the double hit of higher input costs resulting from either domestic carbon prices or a BCA while potentially competing against foreign firms who face neither:

But setting the actual threshold is a thankless task. Any processing industries downstream of the cut-off are buying more costly inputs, but receiving none of the protection afforded to the makers of those inputs. Steel pipe makers, for example, would be purchasing more costly steel from domestic and foreign steelmakers because of the domestic carbon price and the BCA. But if they are not covered by BCA they are competing against foreign steel pipe makers that can buy cheaper steel, and whose exports don't face a BCA at the Canadian border. The risk- especially in sectors with long and complex downstream value

⁵ Canada Trade Statistics 2019, World Bank, World Integrated Trade Solution, <https://wits.worldbank.org/CountryProfile/en/CAN>

⁶ 36.65% and 17.47% of Canadian Imports are composed of Capital goods and intermediate goods, respectively. While 26.46% of Canadian Exports are raw materials, while only 18.53% are capital goods.

⁷ Canadian imports of intermediate and raw materials were 17.47% and 8.36% respectively (2019)

chains like chemicals, steel and pulp and paper- is that downstream manufacturing, even if it is at less risk of leakage, will still suffer some leakage and competitiveness impacts.

If a BCA is predominantly concentrated relatively upstream in high intensity and high trade exposed primary producers, then some form of financial mitigation measures (subsidies) directed at downstream producers in order to offset costs and prevent leakage is likely necessary. Alternatively, for complex supply chains such as steel, expansions of the BCA to cover firms further downstream to particular product segments (pipe, tube, rebar) that are *particularly* trade exposed could and should be considered. This also speaks to the need for concurrent public procurement policies that incorporate sustainability criteria in order to facilitate demand for lower-carbon products along the supply chain.

Trading Partners

US

As our largest trading partner, and the source and destination for the vast majority of our imports and exports both countries have a significant interest in policies that the other might adopt to prevent carbon leakage and protect the competitiveness of domestic firms. Ideally, the Federal government should pursue a North American strategy with our American counterparts in order to create as much policy complementarity between jurisdictions. However, given the uncertainty surrounding US federal domestic climate policy and the particular form a BCA may take shape in the US (regulation vs tax-based) it is important for the Canadian federal government to continue its work in developing a BCA for Canada.⁸

In the meantime, the federal government could also consider working with our counterparts in the U.S. to reduce access to our markets from steel produced by high emitting countries and limiting access to countries that dump steel in our markets, contributing to worldwide over-supply. This can take the form of additional trade remedy reform as advocated by the USW, including strengthening Canada's ability to determine country of origin as well as bolstering circumvention measures. Additionally, Canada could consider the benefits of negotiating something similar to the recently-announced carbon-based sectoral arrangement on steel and aluminum between the US and EU signed in October 2021.⁹ As the development and

⁸ For a further discussion on the US BCA situation please see Cosby et. al. pgs 32-39

⁹ FACT SHEET: The United States and European Union To Negotiate World's First Carbon-Based Sectoral Arrangement on Steel and Aluminum Trade, <https://www.whitehouse.gov/briefing-room/statements->

implementation of a BCA is still far on the horizon, working with our American counterparts to enter into a similar agreement could assist in preventing both carbon and employment leakage in a key economic sector.

EU

The EU has proposed a BCA (or CBAM, carbon border adjustment mechanism) to come into effect by 2023. The CBAM system will work as follows: EU importers will buy carbon certificates corresponding to the carbon price that would have been paid, had the goods been produced under the EU's carbon pricing rules. Conversely, once a non-EU producer can show that they have already paid a price for the carbon used in the production of the imported goods in a third country, the corresponding cost can be fully deducted for the EU importer.¹⁰ In effect, the CBAM is an extension of the existing cap-and-trade system, with importers required to buy allowances on the same terms offered to domestic producers. From Canada's perspective, there are three critical issues going forward:¹¹

1. Ensuring that CBAM is fair and does not unduly penalize foreign producers (i.e. allowing ability to challenge default values for embedded emissions in foreign goods, and crediting carbon pricing)
2. Opportunity to work toward agreement with the EU on principles and best practices in areas like calculating embodied emissions, setting benchmarks and avoiding double protection
3. Preparing Canada's EITE's for entry into force of CBAM, with technical support and consultation

Protectionism?

Concerns over whether a BCA could be protectionist, although understandable, are potentially misplaced.¹² Traditional import substitution industrial policies, which relied on tariffs and other protective barriers to trade, sought to make imports more expensive compared to domestic products in order to increase domestic production and employment at the expense of foreign

[releases/2021/10/31/fact-sheet-the-united-states-and-european-union-to-negotiate-worlds-first-carbon-based-sectoral-arrangement-on-steel-and-aluminum-trade/](https://ec.europa.eu/commission/presscorner/detail/en/qanda_21_3661)

¹⁰ Carbon Border Adjustment Mechanism, https://ec.europa.eu/commission/presscorner/detail/en/qanda_21_3661

¹¹ As identified by Cosby et al, detailed on pgs 43-44

¹² While we do not see a BCA as necessarily protectionist, we would be remiss to add that the implementation of BCA's can be potentially used to increase global inequalities by closing off key export markets for developing countries.

goods and employment. The introduction of a BCA, however, seeks to equalize the conditions of competition by forcing foreign producers to face the same carbon costs as domestic producers so that domestic environmental policy does not result in carbon and employment leakage in the domestic economy. That is, it attempts to mitigate the potential/real employment and carbon leakage to jurisdictions that do not currently place a cost on emissions. As such it is a tool to equalize the conditions of competition; not a tool seeking to provide domestic producers with a competitive advantage over foreign competitors. In fact, it does the opposite, it negates a current competitive advantage for firms who do not face climate policy related costs. As such it also places an incentive on jurisdictions and firms to develop their own climate policies and curb emissions. The USW recognizes that many least developed countries are the least responsible for climate change, but are also often unlikely to have strong EITE sectors. To the extent that those least responsible for global emissions could be harmed by the imposition of a BCA, there should be mitigation measures.

The importance of the role of a BCA equalizing conditions of competition for domestic producers and economies should not be understated. Industries in EITE sectors represent 9.2%-10.6% of GDP¹³ and employ over 1.2 million Canadian workers who not only make good wages, but also sustain further employment in their communities through the spending of those wages. For example, a conservative estimate regarding the employment multiplier for the steel industry places it as 3.3 to 1. That is, for every direct job in the steel industry, another 3.3 jobs outside of it are sustained by it. This is a conservative estimate. Peter Warrian, Distinguished Fellow at the Munk School of Global Affairs and Public Policy, and steel industry expert, estimates that the steel multiplier is realistically higher, somewhere between 3.5 to 7.¹⁴ Using the latter range, that means the steel industry supports anywhere from 100,000 to over 210,000 jobs in the Canadian economy.¹⁵ The aluminum sector employs provides close to 9,000 direct jobs and another 20,000 indirect jobs in Canada.¹⁶ To say EITE sectors are fundamental to the Canadian economy is an understatement. They are crucial and the jobs they provide are irreplaceable. As the previous 20 years have shown, the Canadian economy has lost too many of these well-

¹³ Exploring Border Carbon Adjustments for Canada, Department of Finance, <https://www.canada.ca/en/department-finance/programs/consultations/2021/border-carbon-adjustments/exploring-border-carbon-adjustments-canada.html>

¹⁴ See Peter Warrian "The Importance of Steel Manufacturing to Canada-A Research Study", Munk School Briefings, July 2010.

¹⁵ Calculations based on employment on data for October 2021, NAICS code 331 (Iron and Steel Mills), 3312 (Steel product and manufacturing from purchased steel) and 3314 (Foundries)

¹⁶ Aluminum Association of Canada, <https://aluminium.ca/pdf/2021-11-15-AAC-Portrait-EN.pdf>

paying Canadian jobs which sustain communities due to global divergences in supply costs and capital mobility. The introduction of a BCA, could go a long way in levelling the carbon cost “field” and contribute to not only reducing the risk of carbon leakage, but the associated employment losses in key strategic industries of the Canadian economy.

CONCLUSION

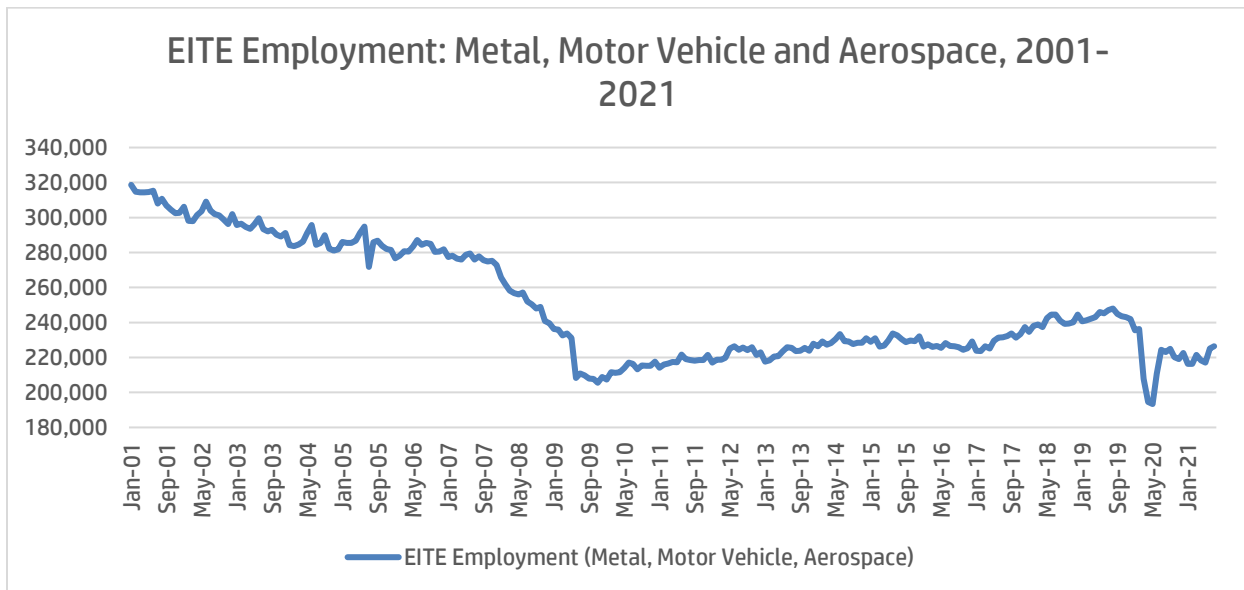
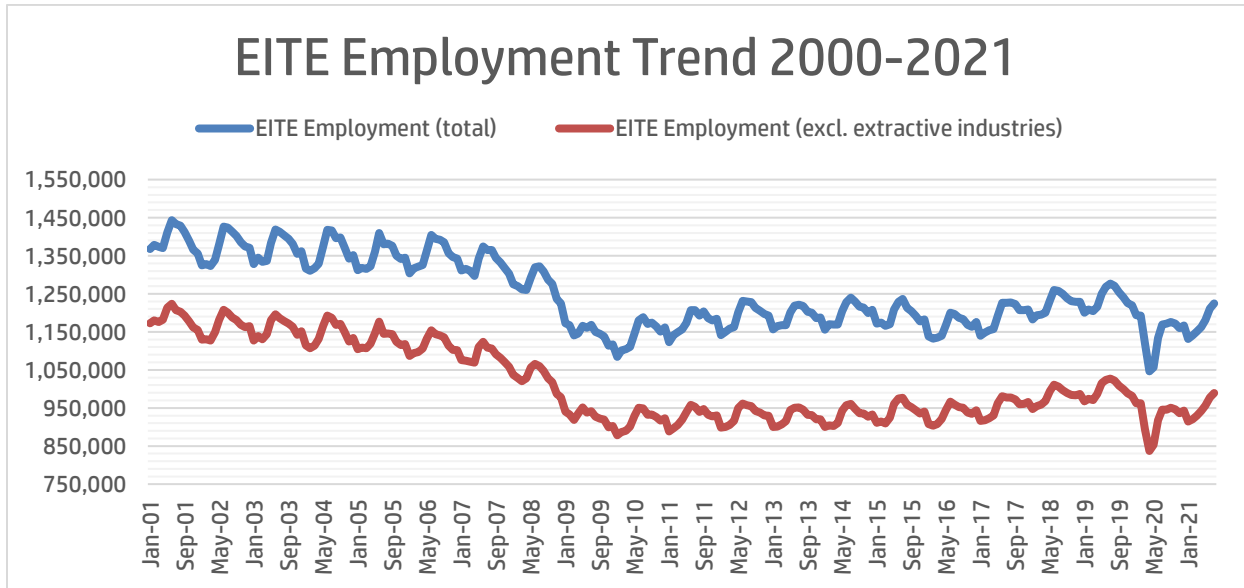
We would like to thank the federal government for providing the USW with the opportunity to express its position on the potential introduction of BCA's. The introduction of a BCA in itself is important measure to address climate change as well as ensure that Canadian workers and businesses are not unjustly left behind as we transition to a decarbonized and green economy.

All of which is respectfully submitted by the United Steelworkers.

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APPENDIX

EITE Employment 2000-2021



Primary Metal Manufacturing: Employment 2001-2021

