THE HEART OF OPPORTUNITY

Investing in Canada's Economic Future

Written Submission for the Pre-Budget Consultations in Advance of the 2019 Budget

By: Alberta's Industrial Heartland Association

July 2018

Alberta's Industrial Heartland
Celebrating 20 Years

Recommendations for Ensuring Canada's Competitiveness:

Recommendation 1:

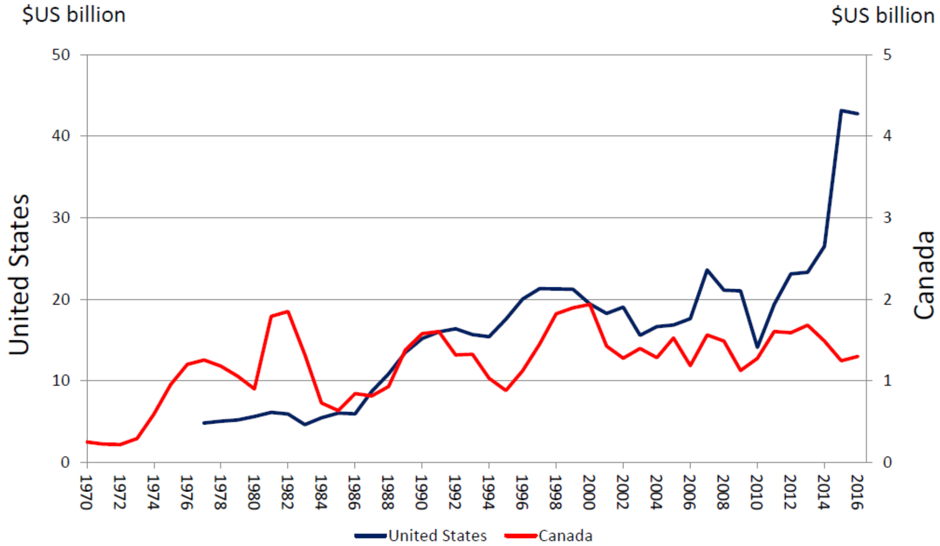
That the Government of Canada permanently extend the Accelerated Capital Cost Allowance for manufacturers – including the petrochemical industry. And that the Government of Canada introduce a 100% ACCA for the entire cost of petrochemical facilities for a minimum of one full business cycle - 10 years - to capitalize on the current wave of value added resource investment opportunities that will help Canada transition to a lower carbon economy.

Recommendation 2:

That the Government of Canada expand the size of the Strategic Innovation Fund to $2 billion per year, make the program permanent and earmark half of those funds for manufacturing, including the petrochemical industry. And that the Strategic Innovation Fund add a tax credit option in addition to the repayable and non-repayable loan options.

Recommendation 3:

That the Government of Canada work with all other levels of government to align and coordinate efforts to create a competitive investment climate across Canada that will attract world-class value-add energy facilities.



Source: Chemistry Industry Association of Canada

ECONOMIC CONTEXT

The last petrochemical investment wave saw $240 billion (CAD) invested in North America. Traditionally, Canada's share would have been $24 billion, or 10%. However, we only managed to attract $3 billion – less than 2%. That $21 billion in missed opportunities represents thousands of highly skilled middle class jobs, community investments, and revenue for government services that could have come to Canada.

What changed? The United States, once our biggest customer, became our biggest competitor – and they are competing to win. The primary consideration for petrochemical investment is availability of low-cost feedstock. That is something that the U.S. and Canada both have in abundance.

The next investment wave is upon us. Companies are looking at Canada and making their decisions imminently. Thanks to recent action by provincial and federal governments, we have already been able to attract $3.5 billion to Alberta and $2 billion to Ontario – but we have the potential to attract tens of billions more in investment to Canada.

ALBERTA'S INDUSTRIAL HEARTLAND

Alberta's Industrial Heartland is a 582-square kilometre value-add energy cluster that has attracted $40 billion in investment to-date.

The Heartland cluster is guided by a non-profit association, established by municipalities over 20 years ago, to attract sustainable development with spin off benefits across Alberta and throughout Canada.

PETROCHEMICAL CLUSTERS IN CANADA

There is the potential to attract $30 billion in new investments to Alberta's Industrial Heartland alone by 2030 if we can create the right investment climate. The opportunities for the rest of Canada are far greater.

The Multiplier Effect:

One petrochemical industry job generates five jobs in the broader economy.

(Source: CIAC)

PETROCHEMICALS FUEL OUR ECONOMY

Annual Canadian Imports & Exports of Petrochemicals by Province

$2B IMPORTS

$0.6B EXPORTS

BRITISH COLUMBIA

$10B IMPORTS

$33B EXPORTS

ALBERTA

$1B IMPORTS

$0.8B EXPORTS

MANITOBA

$31B IMPORTS

$27B EXPORTS

ONTARIO

$9B IMPORTS

$3B EXPORTS

QUEBEC

$53B IMPORTS

$65B EXPORTS

CANADA

Includes: Basic & Polymer Petrochemicals, Urea, Methanol, Polyethylene

(Source: Statistics Canada)

A COMPETITIVE TAX FRAMEWORK

Tax competition for investment is a reality in today's global environment where capital is mobile. Investors routinely compare tax burdens in potential jurisdictions. International tax competition is increasing and the recent tax changes in the United States have widened the competitiveness gap between us and our biggest competitor.

Petrochemical facilities are attractive investments for Canada and they operate for 30, 40 and 50 years – providing good jobs and revenue for decades. But they are capital-intensive projects and it takes on average six to eight years to plan and build them. This is why companies look for programs and tax frameworks that will help offset the major cost of capital when considering in which jurisdiction to build.

"CANADA AND ALBERTA ARE ON EVERYONE'S RADAR. WE JUST KEEP COMING IN NO. 2 OR NO. 3, WHICH IS THE SAME AS COMING IN 50TH."

Kevin Jagger, Commercial Manager, Canada Kuwait Petrochemical Corporation quoted in the Calgary Herald

RECOMMENDATION 1:

That the Government of Canada permanently extend the Accelerated Capital Cost Allowance for manufacturers–including the petrochemical industry. And that the Government of Canada introduce a 100% ACCA for the entire cost of petrochemical facilities for a minimum of one full business cycle of 10 years to capitalize on the current wave of value added resource investment opportunities that use best available technology, helping Canada transition to a lower carbon economy.

Implementing this measure will help increase our competitiveness in a fair and transparent manner that will also see significant returns for the Canadian economy. Calculations employing Government of Canada figures found that for every dollar increase in deduction against corporate income taxes provided by ACCA in Canada, the economic well-being of Canadians increases by $1.40.

(Source: Fraser Institute)

US TAX REFORM

The bulk of the entire US tax reform's impact on economic growth will come from the change to 100% immediate capital cost allowance.

The estimated economic impacts for a 10-year period of this measure are:

- Increase of 3.0% in annual GDP or $571 Billion
- Increase in capital stock of 8.3%
- Boost in both the wage rate of 2.5% and in the number of full-time equivalent jobs by 575,000

(Source: Tax Foundation)

CANADIAN CAPITAL INVESTMENT

Canadian capital investment is now under 10% of GDP - the lowest since the global financial crisis.

(Source: OECD)

"New (Canadian) government incentives are helping make Canada more competitive with the U.S., but the country still lags its peers. I'd say they're more 'closing the gap' and not putting Canada ahead of other jurisdictions."

Tyler Edgington, President, Dow Chemical Canada quoted in the Edmonton Journal

INVESTMENT ATTRACTION TOOLS

In addition to having competitive tax and regulatory frameworks, we need certain investment attraction tools to help drive Canada from second to first place on an investor's list of possible locations.

Effective tools set clear criteria, are fair and transparent and reduce taxes for a period of time, only once a facility is operational. The economic activity generated by a new facility – no matter where in Canada it locates - provides significant benefits across our country.

The Government of Canada made great strides with the creation of the Strategic Innovation Fund, but some strategic amendments could transform this program into a tool designed to attract world-class petrochemical facilities and highly skilled, high paying jobs.

RECOMMENDATION 2:

That the Government of Canada expand the size of the Strategic Innovation Fund to $2 billion per year, make the program permanent and earmark half of those funds for manufacturing, including the petrochemical industry. And that the Strategic Innovation Fund add a tax credit option in addition to the repayable and non-repayable loan options.

FUELING OPPORTUNITY

Federal revenue generated by a propane-to-polypropylene facility:

Construction (4-year):
$508 Million

- This could pay for broadband internet access to 300 rural communities.

Operation (annual):
$67 Million

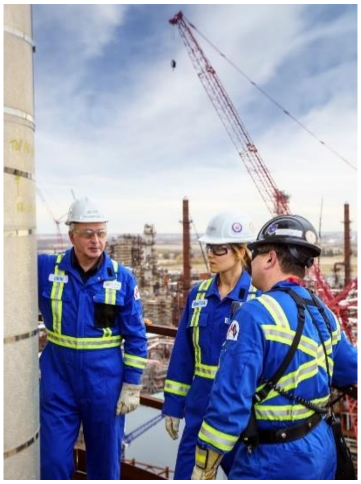
- This could pay for 44 buses for communities across Canada.

Federal revenue generated by construction of an ethane-to-polyethylene facility:

$3.1 Billion

- This could pay for the entire 2018/19 Federal Budget for Indigenous reconciliation initiatives.

(Source: Invest in Canada Plan)



WORKING TOGETHER TO CREATE A COMPETITIVE INVESTMENT CLIMATE

There is a petrochemical investment window open right now for North America. Alberta and Canada can be the location of choice for billions of dollars of investment in value-add energy facilities – if we work together at all levels of government to create a competitive investment climate.

RECOMMENDATION 3:

That the Government of Canada work with all other levels of government to align and coordinate efforts to create a competitive investment climate across Canada that will attract world-class value-add energy facilities.

Preventing Carbon Leakage

If a new Canadian petrochemical plant displaces one built elsewhere that might have higher GHG emissions, the Canadian operation is a net carbon-benefit to the global carbon budget.

(Source: EDAC)

A COMPETITIVE INVESTMENT CLIMATE

A Welcoming Business Environment

Regulatory certainty, transparency, and timeliness are critical for attracting new investment.

A competitive Tax Framework

Taking into account all taxes and added costs from all levels of government ensures we remain competitive overall against our biggest competitors.

Investment Attraction Tools

Creating effective tools will drive economic growth and innovation.

Economy-Enabling Infrastructure

Investing in infrastructure will propel economic growth.

A 21st Century Workforce

A skilled workforce that reflects the diversity of our country will benefit everyone.

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