

2017 Federal Pre-Budget Consultation

A Submission to the House of Commons
Standing Committee on Finance
August 2016

*Seizing Opportunities for
Sustainable Growth*



**CHEMISTRY INDUSTRY
ASSOCIATION OF CANADA**



Responsible Care®
Our commitment to sustainability.

➤ Executive Summary

The North American chemistry industry is experiencing unprecedented growth and the time has come for Canada to foster a fiscally friendly environment to attract new investment, create jobs for Canadians, and ensure communities can grow and prosper. But this will not happen without bold leadership.

Recommendations:

1. Make the 10-year extension of the *Accelerated Capital Cost Allowance* (ACCA) permanent for manufacturing and processing to signal Canada is welcoming new investments in value-add resource upgrading.
2. Introduce an investment tax credit or 100 per cent ACCA for a minimum of 10 years to specifically apply to upgrading Canadian resources into manufactured products.
3. Implement a special manufacturing and processing (M&P) tax rate to provide a stimulus for adding value to our natural resources in the form of a two-point M&P reduction (from the current 15 per cent corporate tax rate to 13 per cent).
4. Support the modernization of the National Pollutant Release Inventory to allow for greater public accessibility and understanding of the inventory, while simultaneously simplifying the process for industry inputs.
5. In the development of carbon mitigation schemes, deliver a balanced approach that addresses national climate change objectives while avoiding duplication with provincial programs; and support the development, manufacturing and use of low-carbon solutions and products.
6. Invest in the renewal and expansion of short line rail infrastructure to improve access to markets and enhance the safety and efficiency of Canada's transportation network.

➤ Canada's Chemistry Industry

Canada's chemistry industry is an important contributor to our nation's economy. It converts and adds value to raw resources such as natural gas, crude oil, minerals, and biomass, creating intermediate products that are used as inputs in other areas of the chemistry industry, and by almost all other manufacturing sectors. Shipments were \$53 billion in 2015, making chemicals the fourth largest manufacturing sector; exports were \$38 billion, second only to automotive.

The chemistry industry is the sixth largest manufacturing employer, directly responsible for 87,500 jobs. Industry employees are highly-skilled and well paid. In addition, other jobs are supported by the purchasing activity of the industry. Statistics Canada has estimated that for every job in the industry, another five indirect jobs are created. In total, the industry supports almost 525,000 jobs in Canada.

North American development of shale gas resources has resulted in natural gas prices that are among the lowest in the world. This is important to petrochemical companies because natural gas is both a source of energy and, more importantly, a primary source of feedstock. In most other parts of the world, petrochemicals are derived from more carbon-intensive crude oil and coal.

However, Canada's chemistry industry comprises only one per cent of the \$5.2 trillion global industry, and we must work hard to attract international investment. The American Chemistry Council estimates that US\$164 billion in new chemistry industry investments are announced or underway in North America, driven largely by the shale gas phenomenon. Only a small share of this investment is happening in Canada – we believe there is strong potential to attract a much larger share. But doing so will require that all investment-decision factors be made as attractive as possible.

The remainder of this submission focuses on the federal actions that would help the chemistry industry meet its expansion, innovation and prosperity goals, and thereby contribute to Canada's economic growth.

1. Taxation

The 10-year extension of the *Accelerated Capital Cost Allowance (ACCA)* for new manufacturing machinery and equipment announced in Budget 2015 represented a big step toward attracting more investment to Canada. Large chemistry projects take five or more years to complete from concept to the start of production. Having ACCA in place for an extended period of time allows companies to factor its impact into their site-selection process. This measure just matches existing permanent treatment in the U.S. and it needs to be made permanent for Canada to remain competitive. CIAC believes greater efforts will be needed to encourage value-add resource upgrading and to attract new projects to Canada.

2017 FEDERAL PRE-BUDGET CONSULTATION

Recommendations:

1. **Make the 10-year extension of the ACCA permanent for manufacturing and processing to signal Canada is welcoming new investments in value-add resource upgrading.**
2. **Introduce an investment tax credit or 100 per cent ACCA for a minimum of 10 years to specifically apply to upgrading resources into manufactured products.**

The federal corporate tax rate of 15 per cent offers a competitive advantage compared to U.S. jurisdictions. It will be important for Canada to remain vigilant in retaining this position, and to respond to changes that may happen in the U.S.

CIAC has concerns about slippage in the corporate tax rate already seen in some provinces of key importance to our sector. It is the combined tax burden that matters to companies and investors, so increases at any level of government affects the overall operating environment for business. Collectively, governments need to consider further stimulus to address the health of manufacturing in Canada.

Recommendation:

3. **Implement a special manufacturing and processing (M&P) tax rate to provide a stimulus for adding value to our natural resources, in the form of a two-point M&P reduction (from the current 15 per cent corporate tax rate to 13 per cent).**

It will take bold measures to win new investments – but these investments will in turn provide long-term profitable growth for Canada that runs counter-cyclic to our resource-based sectors.

2. Productivity and Environmental Stewardship

Productivity improvement within the chemistry industry is dependent upon the degree to which Canada succeeds in attracting investments as new projects always utilize the latest technologies, leading to both economic and environmental benefits. The industry's goal is to attract investments to add value to Canada's natural resources, using those as an opportunity to deploy best available technologies.

For decades the chemistry industry has been actively involved in implementing initiatives that improve the sustainability of their operations and reduce harm throughout the entire life cycle of their products. Since 1992, CIAC member-companies have voluntarily reduced their net greenhouse gas emissions by 69 per cent, their hazardous waste disposal by 64 per cent and their discharges to water by 99 per cent.

Also, as part of CIAC's Responsible Care® Ethic we support the goal of ensuring that data on emissions to air, water and land is shared in an open and transparent manner with all Canadians. To this end and to support evidence-based policy making, CIAC considers that the National Pollutant Release Inventory's (NPRI) *Single Window Information Manager* (SWIM) system needs to be upgraded to improve usability, data quality and accessibility. CIAC believes that this information should be accessible for those who want to know what is being released in their communities, based on their postal code, airshed, community and other geographic designations.

Recommendation

4. **Support the modernization of NPRI to allow for greater public accessibility and understanding of the inventory, while simultaneously simplifying the process for industry inputs.**

Canada's chemistry industry is already a world leader in low green house gas (GHG) emissions' production due to: the emerging availability of low-carbon feedstock; more than \$12 billion in capital investments in process and product re-engineering made during the last decade; access to one of the lowest, on average, GHG-intensive national electricity grids; and energy conservation measures.

Additionally, product innovations from the industry have been effectively deployed to reduce emissions in areas such as housing, transportation, food and waste. Research shows that for every unit of GHG emitted as part of chemical manufacturing, the industry's products and technologies result in a net reduction of 2.6 units of emissions during a product's life cycle.

Presently, the industry is facing a patchwork of provincial climate mitigation and carbon pricing schemes. Rather than duplicating these, national climate change objectives can be achieved by eliminating barriers that reduce the ability of industry to compete in the new low carbon economy by, for example, facilitating access to low-carbon feedstocks (e.g. natural gas) to manufacture sustainable products in Canada. At a time when our main trading partners are not actively imposing carbon pricing schemes, making the business case for investment in Canada is becoming much more challenging. Industry, and Canadians overall, lose rather than win when domestic production and associated emissions are simply moved offshore to other jurisdictions.

Recommendation:

5. **In the development of carbon mitigation schemes, deliver a balanced approach that addresses national climate change objectives while avoiding duplication with provincial programs, and support the development, manufacturing and use of low-carbon solutions and products.**

3. Infrastructure and communities

Industrial chemicals is an export-intensive industry with over 70 per cent of production sold to international markets. Of this, more than 70 per cent is shipped to the United States (U.S.) with the next largest destinations being China and the European Union. With the U.S. investing heavily in expanded chemistry sector production, Canada must increasingly compete to retain market share in both the U.S. and in third world markets.

Safe, reliable, efficient and competitive movement of goods via rail within North America, and via sea to off-shore markets is an important competitiveness factor. CIAC and its members support federal efforts to address rail issues, to facilitate cross-border movement into the U.S., to improve our port facilities and intermodal traffic efficiencies, and to negotiate enhanced market access through new free trade agreements.

A key transportation issue is short line rail infrastructure. Short lines operate on lower density rail lines, feeding traffic into and delivering traffic from mainline railways, and are integral to Canada's rail transportation network. However, their financial capacity limits their ability to upgrade their infrastructure to meet the car-loading standard for the North American railway industry, especially when compared to their Class 1 peers.

Recommendation

6. **Invest in the renewal and expansion of short line rail infrastructure to improve access to market and enhance the safety and efficiency of Canada's transportation network.**

This is the approach followed in the U.S., where short lines have access to multiple federal and state-level initiatives including grants, low-cost lending programs and tax credits. This funding model would allow short lines in Canada to invest in infrastructure in order to meet new regulatory requirements, increase load capacity, and improve efficiency yielding considerable public benefits.

4. Jobs

The chemistry industry is an advanced manufacturing industry that relies upon a highly-skilled, well-paid labour force. While the average manufacturing salary in 2015 was \$54,400, for industrial chemicals it was much higher at \$96,400. Moreover, 38 per cent of industry employees have university degrees, the second highest proportion within manufacturing sectors.

A sustained effort by all levels of government to ensure that Canada becomes, and remains, an attractive investment destination will attract new investment which will result in more high-paying jobs, and help solidify the ones we already have.

➤ Conclusion

North America is experiencing a manufacturing revival. Canada must participate in this revival; there are prospects for growth and strong performance in the coming years. But, there remains more to be done for Canada to reap the benefits that come with major new investments. Now is the time for all stakeholders to put their best foot forward so that this opportunity is maximized.

Who We Are

The Chemistry Industry Association of Canada (CIAC) is the voice of Canada's chemistry industry. We represent more than 50 chemistry companies and transportation partners across the country - from Canada's largest petrochemical, inorganic and specialty chemistry producers, to bio-based manufacturers and chemistry-related technology and R&D companies. CIAC is also recognized as a world leader in the sustainable stewardship of chemistry products through its acclaimed Responsible Care® initiative. For more information, go to: www.canadianchemistry.ca