



CHEMISTRY INDUSTRY
ASSOCIATION OF CANADA

Chemistry Industry 2019 Federal Pre-budget Consultation

August 2018



SUBMISSION TO
The Standing Committee on
Finance and Economic Affairs

> Recommendations:

1. Introduce a 100% *Accelerated Capital Cost Allowance* (ACCA) for a minimum of one full business cycle of seven years to apply to manufacturing industries immediately. Then, following stakeholder consultation, broaden the coverage of investment assets available for ACCA, specifically to include site preparation and acquired property not yet used by the acquiring party, effective with Budget 2019.
2. Invest in programs that will allow Canada to become a leader in the commercialization of technologies to recycle, recover or transform all plastics by 2040.
3. Invest in the effective and safe transportation of dangerous goods by:
 - Renewing the National Trade Corridor Initiative including investments in rail and ports; and
 - Re-funding the Rail Safety Improvement Program and expanding it to include education and resources around the transportation of dangerous goods.

› 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 almost all other manufacturing sectors. Advances in key sectors such as green buildings, sustainable transportation, clean energy and sustainable agriculture would be impossible without chemistry. Shipments were \$52 billion in 2017, making chemistry the fourth largest manufacturing sector; exports were \$35 billion, second only to automotive.

The chemistry industry is the sixth largest manufacturing employer, directly responsible for 87,300 jobs. Industry employees are highly-skilled and well paid. Statistics Canada has estimated that for every job in the industry, another five indirect jobs are supported in complimentary sectors. In total, the industry supports almost 525,000 jobs in Canada.

However, Canada's chemistry industry comprises only 1% of the \$5.2 trillion global industry, and we must compete hard to attract international investment. The American Chemistry Council (ACC) estimates that over **\$258 billion in new chemistry industry investments** are announced or underway in North America, driven largely by the shale gas phenomenon, and over 60% is direct foreign investment.

Only a small share of this investment, just over 2%, is happening in Canada – we believe there is strong potential to attract a much larger share, at a minimum 10% or an additional \$18 billion which corresponds to Canada's historical share of North American investment in the sector. CIAC members are focused on new investments to deliver productivity and environmental improvements which will ensure global competitiveness and in turn, greater wealth generation contributing to Canada's economic growth. But doing so will require that all investment-decision factors be made as attractive as possible.

› 1. Competitiveness and Taxation

In the chemistry sector, Canada is competing globally for the next wave of investments; but our primary competition is with the United States. In the U.S., local municipalities and state-level governments in Texas, Louisiana and Pennsylvania, just to name a few, have worked tirelessly to attract investments in the chemistry sector. The passage of the *Tax Cuts and Jobs Act* (TCJA) by Congress in late 2017, overhauled federal business taxation for the first time in over 30 years and has enhanced the aggressive business climate that state-level jurisdictions have created. The U.S. tax overhaul has lowered the marginal effective tax rate (METR) on capital investment from approximately 35% to 19%.¹ While Canada used to enjoy a METR advantage necessary to overcome construction, utility, labour and logistics disadvantages, that is now gone.

¹ Bazel, P., J. Mintz and A. Thompson. 2018. "[2017 Tax Competitiveness Report: The Calm Before the Storm](#)" University of Calgary. p 2.

Capital Spending and Depreciation

Chemistry facilities are long-term, capital intensive investments and often take five to seven years from concept to the start of production. During this investment period, capital expenses range from specialty design and engineering work to labour-heavy tasks such as site preparation, modular fabrication and finally facility construction. Each of these tasks entail different financial outlays for an investor with varying degrees of capital intensity. Because Canada competes primarily with the U.S. for chemistry investments it is worth examining changes in the TCJA that impact capital investment.

A key aspect of the TCJA is the 100% immediate depreciation rate for capital equipment. The immediate depreciation of capital investments lowers the upfront capital costs needed to finance a project by allowing a firm to deduct those expenses from an existing revenue stream. This new rate will apply to new and newly acquired capital assets placed into service from September 2017 to 2023, with a wind-down period through 2026. A study completed for CIAC in 2014² showed that U.S. depreciation measures, in addition to this new and expanded 100% rate, also cover a broader selection of capital asset investments such as site preparation and infrastructure installation.³ This depreciation measure has significantly enhanced the attractiveness of U.S. jurisdictions.

CIAC has conducted research showing that accelerated capital cost measures do not impact government revenues over the long-term and have a material impact on the attractiveness of a capital investment from the investor's perspective.⁴ To the extent that the ACCA enhances the likelihood of a positive investment decision in Canada, early stage forgone tax revenues should be seen through a lens of additionality in at least two respects:

- Without the incentive offered by a 100% ACCA, the investment itself is unlikely to proceed, meaning the government will forgo all potential taxes.
- A minimum of 50% of project spending will occur in the local area through suppliers, manufacturers, service providers and wages. For many projects, that number exceeds 75%. **The incremental taxes on this spending accrue to all levels of government.**

Using two common capital asset planning tools, a 100% ACCA **increases the net present value** of the investment and **increases the internal rate of return** the firm expects to earn on the investment.⁵ These planning metrics are heavily factored into the planning and budgeting processes of chemistry companies. A 100% ACCA is a necessary measure to address a

² See footnote 4.

³ Pinto, Odette. 2014. "[Capital Allowance Systems for Chemical Corporations: Canada vs. United States](#)," Contracted Research for CIAC. p 7-9.

⁴ CIAC has undertaken an assessment and comparison of several ACCA options for impact on the business case for an investment interest, and government revenue streams: "[Accelerated Capital Cost Allowance Analysis](#)" Chemistry Industry Association of Canada 2016. Currently updating to add net present value impacts for potential investments.

⁵ Ibid.

fundamental competitiveness disadvantage and encourage investment in Canada in resource upgrading and value-add manufacturing. It is CIAC's view that an **ACCA is the least cost option** to Canadian taxpayers while also having a material impact on the capital planning decisions taken by chemistry firms. This measure will increase the value added to Canada's resource sector ten-fold and high-value manufactured goods will be exported to world markets. Perhaps most significantly, these investments have historically delivered corporate taxes paid in line with the capital investment over the life of the project – a \$10 billion investment delivers \$10 billion in corporate taxes paid over 30 years.

Recommendations:

1. **Introduce a 100% ACCA for a minimum of one full business cycle of seven years to apply to manufacturing industries. Then, following a stakeholder consultation, broaden the coverage of investment assets available for ACCA, specifically to include site preparation and acquired property not yet used by the acquiring party.**

Growing Importance of Business Taxation Review and Coordinated Supports

A growing number of respected academics, industry groups (i.e. Canadian Manufacturers and Exporters⁶) and think tanks (i.e. C.D. Howe Institute) have begun calling on the federal government to undertake a complete review of business taxation. Firms are not homogenous and each face different challenges. A piecemeal approach to taxation reform risks benefiting incumbent firms over others trying to break into the Canadian market. **It is time for the government to modernize and simplify Canada's tax code, including a re-examination of corporate taxation rates, so every sector and industry can compete in the 21st century global economy.**

Canadian chemistry is vital to Canada's manufacturing future. In addition to a modern taxation regime, winning investments in the chemistry sector needs a holistic approach from government, one in which governments create the best investment environment possible. Municipalities, provinces and the federal government all help craft Canada's investment climate. It is vital that everyone is working in an integrated manner towards the same goal, which is winning investments for Canada. Actions to date are often ad-hoc and time sensitive. They are not long-term strategies designed to win chemistry investments. **What is needed is a coordinated approach from all levels of government dedicated to winning chemistry sector investments year after year.**

⁶ Holden, M. 2018. "[Restoring Canada's Advantage: The Need for Tax Reform](#)." Canadian Manufacturers and Exporters

› 2. Innovation and Transportation

Investing in the chemistry sector is not just about economics. An investment in Canada's chemistry sector is an investment in creating some of the lowest GHG-intensive products on the planet. Canada's chemistry products are already 80% less GHG-intensive than those produced in some European or Asian markets, which rely on crude oil or coal, respectively, as feedstock. Increasing investments and production in Canada, particularly plastic resin investments, means that we are developing products that reduce the environmental footprint of manufactured end-products throughout their entire lifecycle.

The Canadian chemistry industry and representatives of the plastics value chain are working closely with Environment and Climate Change Canada on its international and domestic commitments to reduce plastic waste in the environment. As we grow chemistry production in Canada, we must ensure that systems are in place to recover the value of waste plastics as potential feedstocks. Investment in waste-management can also facilitate that transformation. Compelling technologies currently exist in niche areas to facilitate the collection, recovery and recycling of plastics. Canada could be a global leader in the recycling and recovery of plastics by investing in chemical recycling technologies and other innovative forms of deriving benefits from plastic waste.

Recommendations:

2. **Invest in programs that will allow Canada to become a leader in the commercialization of technologies to recycle, recover or transform all plastics by 2040.**

Growth in the chemistry sector means increased goods on the move. Canadian chemistry executives now identify rail service as a key factor in deciding whether to locate a new facility or expand operations in Canada, second only to feedstock availability. The largest growth markets for future chemistry product demand are not in North America or Europe but rather in Asia, Latin American and Africa. As a result, access to shipping ports via a safe, reliable and competitively priced rail service is critical to the success of the Canadian chemistry industry and Canadian manufacturing broadly. Investments in a national transportation infrastructure and safe transportation of goods, including dangerous goods, are paramount.

Recommendations:

3. **Invest in the effective and safe transportation of goods by:**
 - a. **Renewing the National Trade Corridor Initiative including investments in rail and ports; and**
 - b. **Re-funding the Rail Safety Improvement Program and expanding it to include education and resources around the transportation of dangerous goods.**

> Conclusion

The global chemistry industry is on a sustained and robust growth trajectory. Each year, hundreds of billions of dollars of new chemistry investments are taking place. Canada's inability to attract its historical share of chemistry sector investments suggests we are missing out on opportunities that should benefit our nation. There is an urgent need for action to ensure Canada does not forgo these opportunities in the future. While most of these recommendations can wait for Budget 2019, a shift to 100% ACCA for a minimum of one full business cycle of seven years is needed immediately. It takes bold measures to win new investments – but these investments will provide long-term profitable growth for Canada that provides consumers with the lowest GHG-intensive chemistry products on the planet.



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