CHEMISTRY INDUSTRY ASSOCIATION OF CANADA

Competitiveness Scorecard Chemistry Sector

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Quebec 2017-2018

Quebec accounts for about 15 per cent of Canada's industrial chemical manufacturing. This number is declining as the province fails to attract new investments and aging facilities are less competitive. Quebec's ability to develop its natural resources could bring new investment to the province. Quebec needs to aggressively pursue its energy diversification in addition to tax reform to attract this investment. The development of new hydroelectric power supplies, as well as new supply of Western Canada crude oil and natural gas, may provide opportunity for chemical sector investments. The Chemistry Industry Association of Canada (CIAC) recommends the following as priority areas:

- Reduce corporate taxes for manufacturing to 10%;
- Reduce the administration burden of doing business in Quebec (e.g. streamline and facilitate regulatory approvals);
- Develop fair and balanced economic and environmental policies to help maintain our competitiveness; and,
- Develop strategies designed to reduce industrial electricity rates in order to attract new investment.

CATEGORY	COMPETITIVENESS COMPARISON	TREND	COMMENTS
Corporate Taxation & Fiscal Policy	–	■	A high corporate tax rate compared to neighbouring jurisdictions in Canada and the U.S. continues to seriously impact Quebec's attractiveness as investment location. A temporary 100 per cent depreciation allowance is needed to stimulate investment by foreign subsidiaries. Monitor U.S. tax reform plans-potential game changer.
Environment, Health & Safety	–	■	Cap and trade and environmental charges, such as water charges, have been implemented and significantly add to the cost of doing business in Quebec. Future alignment with Ontario and California on greenhouse gas (GHG) emissions regulations anticipated. The decline of free allocations is a threat to competitiveness. Regulatory approval regime remains complex and the timelines remain very long.
Manufacturing Base/Critical Mass	–	▼	Manufacturing sector continues to decline. New investments are needed to replace or upgrade existing facilities. A manufacturing or value-add strategy is urgently needed. The weaker Canadian dollar may stimulate export growth, but is not enough to attract new investment.
Energy/Electricity (Supply/Pricing)	–	■	Quebec must restore an industrial electricity rate advantage for its competitiveness and use this advantage to create investment based on renewable energy.
Raw Materials/ Feedstocks	=	■	CIAC supports government action to permit oil and gas exploration. Recognition of the importance of value-added industrial activity in energy chains, particularly of electricity, is also needed. The Northern Plan and Maritime Strategy could encourage new investment.
Logistics & Maritime Strategy	=	■	Good investments in infrastructure and efforts underway to address cross-border congestion. Railway cost and level of service improvements are needed to address service issues in a sustainable way and encourage investment. Continue to work with government to develop a maritime strategy that will meet the needs of the industrial sector.
Workforce Supply/ Construction Costs	=	▲	Workforce is skilled and productive; demographics indicate rate of retirement will accelerate, increasing need for more training and new hires. While construction and operational costs are more comparable to the U.S. Gulf Coast (USGC) than in the past, state and local incentives create a competitive advantage south of the border.

COMPETITIVENESS OVER COMPETING JURISDICTIONS

+ Advantage = Neutral – Disadvantage

Based on indices used by the World Economic Forum

TREND IN COMPETITIVENESS SINCE 2016/2017

▲ Improving ■ Unchanged ▼ Declining

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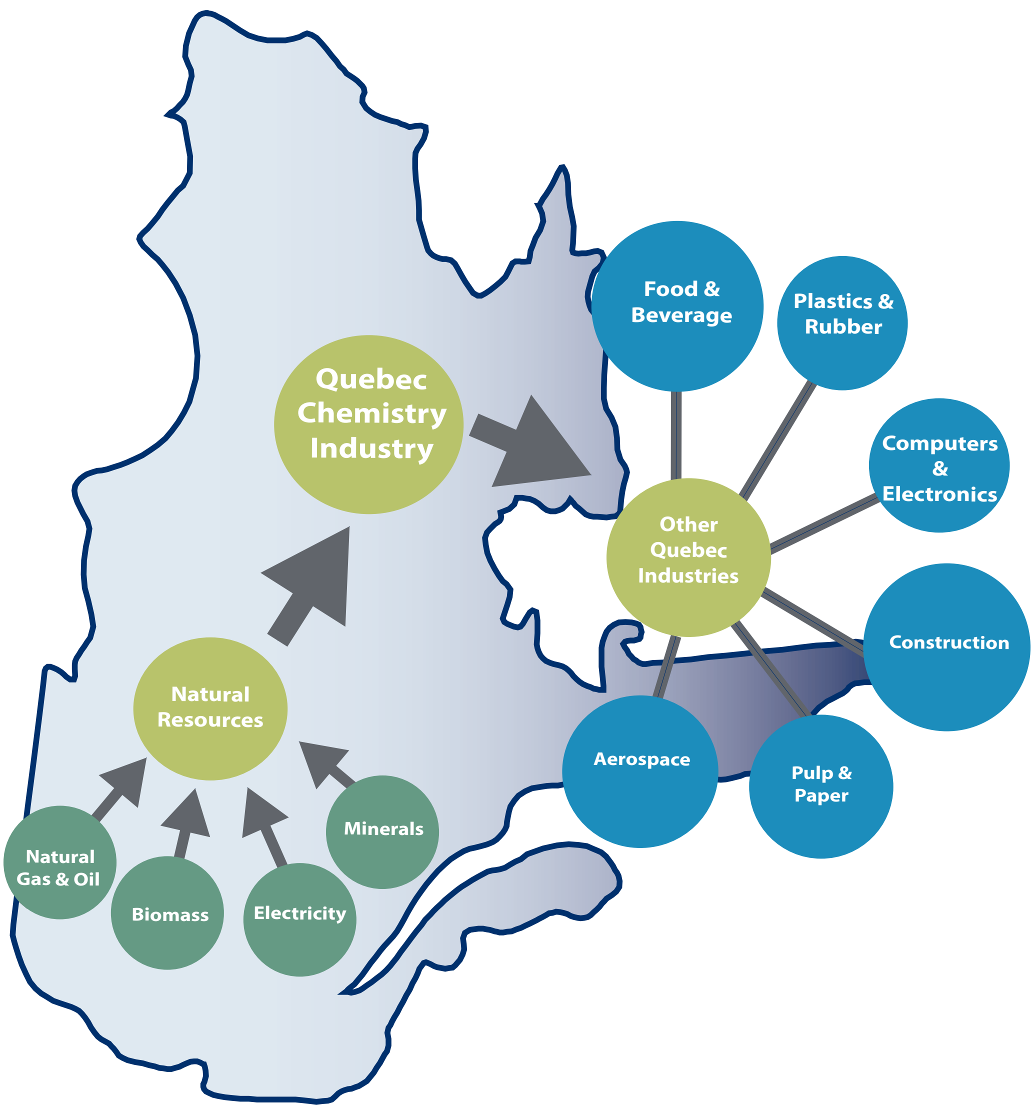
Quebec's Chemistry Sector by the Numbers[1]

CIAC's membership is a key sub-sector of Canada's chemical sector (NAICS 325): Industrial Chemicals (NAICS 3251 + 3252).[2]

- Shipments of $9.3B in 2016 (industrial chemicals represent 39% of those shipments)
- Exports valued at $5.7B
- Employment 22,600 (3,400 for industrial chemicals) with a multiplier impact estimated at 135,000
- Average salary $67,000 ($72,700 for industrial chemicals)
- Solutions provider touching over 90% of Canadian manufacturing

Keystone to Value-Added Manufacturing



[1] Source: Industry Canada with data from Statistics Canada | For further data on the sector see CIAC's Chemistry Industry Economic Profile 2017

[2] NAICS 3251 + 3252 - Chemical Manufacturing + Resin, Synthetic Rubber, and Artificial Synthetic Fibers and Filaments Manufacturing