



CHEMISTRY INDUSTRY
ASSOCIATION OF CANADA

Chemistry Industry

2020 Ontario Pre-Budget Consultation



SUBMISSION TO
The Standing Committee on
Finance and Economic Affairs

Recommendations:

1. Ontario develop and/or advocate to their federal counterparts for the establishment of two mechanisms that will allow for the recycling of carbon pricing proceeds to be returned to industry to invest in their operations to lower GHG emissions.
2. Maintain the chemistry sector as a priority sector within the Province's economic development strategy and actively engage with multinationals to raise Ontario's profile as a leading chemical manufacturing jurisdiction.
3. Implement a comprehensive framework similar to Alberta, Texas and Louisiana to attract new chemistry sector investments.
4. Ensure predictability and transparency as cornerstones of a new investment attraction framework:
 - a. Commit to keeping programs beyond election cycles. Maintain programs in place for 8-10 years to give prospective project proponents the certainty and predictability to bring forward meaningful and credible projects.
 - b. Investment support programs should be transparent and open to any project meeting pre-determined criteria to avoid the appearances of government picking winners and losers.
5. Continue to eliminate unnecessary and duplicative regulatory burdens to reduce business costs and increase competitiveness while protecting human health and the environment.
6. Restore industrial electricity price competitiveness and programs that incent new production and facility expansions.
7. Introduce additional measures to protect industrial employment lands from regulatory creep that force relocation or costly alterations to facilities due to residential or other sensitive land use expansion.
8. Reduce industrial property tax rates and introduce industrial property tax abatement programs to incent investment, expansions and upgrades.

› Canada's Chemistry Industry

The Chemistry Industry Association of Canada (CIAC), on behalf of its membership, welcomes the opportunity to provide our input to the Standing Committee on Finance and Economic Affairs as part of the 2020 pre-budget consultation. We firmly support the government's commitment to address the deficit and debt burden and commend the government on its multi-faceted, Open for Business Action Plan to make the economic climate in the province more attractive to start and grow a business and encourage more investment.

The chemistry industry is the fastest growing manufacturing sector in North America. Chemistry manufacturing facilities have a life cycle of more than 30 years. Not securing these investments now means Ontario will miss out on decades of new direct and indirect jobs, tax revenues, new infrastructure and community investments. Only a competitive business environment and a welcoming public policy environment will attract our fair share of new investment and create the high value, long-term sustainable jobs that the chemistry sector generates.

Chemistry Industry Association of Canada

CIAC represents companies that manufacture industrial chemicals (including petrochemicals, bio-based chemicals, inorganic chemicals and resins). Our members transform raw materials like natural gas liquids, oil, minerals and biomass into the building blocks needed to produce some 70,000 products that we depend on every day.

In fact, 95 per cent of all manufactured products rely on chemistry. The products that our members produce are essential building blocks that supply and empower the broader manufacturing sector including small to medium size firms in Ontario and the rest of the country. Many of our member firms are foreign-based multinationals that compete globally for both market share and within their organizations for new investment capital.

Responsible Care®

All actions by CIAC members are governed by Responsible Care. Responsible Care is the flagship program of our industry that ensures our members innovate for safer and greener products and processes, and work to continuously improve their environmental, health and safety performance. Launched in Canada in 1985 and now adopted in over 70 countries and recognized by the United Nations, CIAC member-companies strive to "do the right thing and be seen to do the right thing." This is our commitment to sustainability – delivering results for the betterment of society, the environment, and the economy.

Responsible Care companies must be transparent about their activities and draw upon independent experts and members of the public to verify that they are living up to the standards set by Responsible Care. Correspondingly, every three years a team of industry experts, public advocates and representatives chosen by local communities audit each CIAC member to evaluate their compliance to the specific requirements of Responsible Care, and these Verification Reports are publicly available for review. CIAC also has a National Advisory Panel made up of activists, advocates and academics that advise CIAC on how to understand and exceed the public's expectations through Responsible Care.

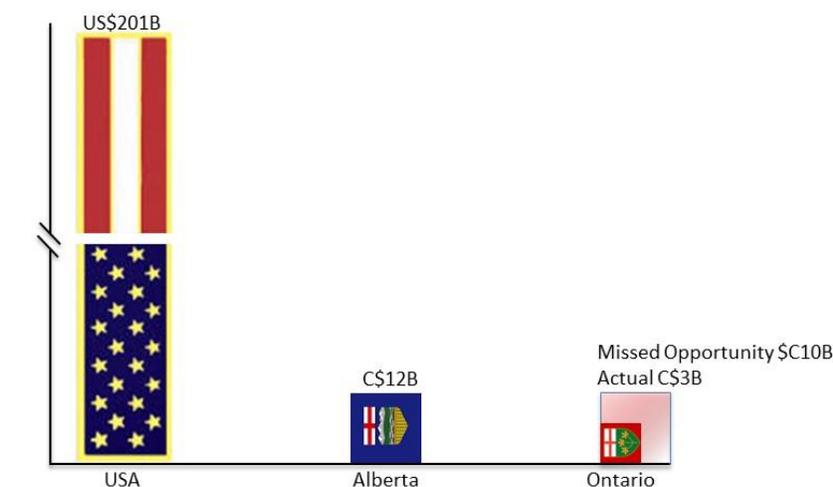
Investment Rejuvenation

The \$5 trillion global chemistry industry is a story of economic development, job creation, sustainability and incredible growth. Our sector's growth forecast over the next 20 years is well in excess of global GDP growth rates.

The North American chemistry industry is experiencing unprecedented growth principally due to the abundant and low carbon supply of natural gas liquids. In the United States alone, more than US\$200 billion in chemistry investments across more than 300 projects have been tracked in the current business cycle. In addition, there are another 700 project investments occurring in the downstream plastics processing sector. Many of these plastics projects have been made in the neighbouring Great Lakes states including Wisconsin, Michigan, Ohio, Pennsylvania and New York.

The following chart illustrates the diverging trend in investment activity for the chemistry sector between Canada and the United States since 2010. Alberta has become Canada's fastest growing chemistry sector attracting \$12 billion in new investments. Since 2012, Ontario has gained \$3 billion in projects. Based on Ontario's historical share of chemistry investments, we should have seen a further \$10 billion in chemistry investments.

Comparison of Chemistry Investment Activity in Canada and the United States
(2010 to present)



Sources: Chemistry Industry Association of Canada/Statistics Canada
American Chemistry Council

Ontario's Chemistry Sector

Ontario's \$24.3-billion chemistry industry is the third largest manufacturing industry in the province, directly employing over 45,970 Ontarians in well-paying jobs and supporting another 280,000 Ontario jobs in other sectors. Our members are key employers in the Sarnia-Lambton, GTA/Niagara and Eastern Ontario regions of the province. We provide important inputs to a range of key manufacturing sectors including automotive, forest products, construction, and food and beverage. Ontario remains Canada's largest chemistry jurisdiction accounting for 44 per cent of the nation's chemistry output.

Among all manufacturing industries, the chemistry sector ranks #2 in having the highest proportion of employees with university degrees, reflecting the high skill level required in our workforce, and the fact that our jobs are well-paying. Our sector also ranks as the province's 2nd largest trader, accounting for \$60 billion in exports and imports in 2018.

The Sarnia-Lambton region in particular is truly a great example of a high performing industry cluster positioned for further growth. The cluster is the single largest and most concentrated in Canada and is evolving to become a globally recognized bio-hybrid chemistry cluster.

The region's attributes include:

- a large concentration of interconnected production facilities;
- specialized infrastructure and well-suited geology;
- proximity to and access to key lower carbon, cost advantaged natural gas liquids and biomass feedstock;
- a large base of skilled workers, trades, contractors and a supporting supply chain consisting of small and mid-sized firms;
- over two-thirds of North America's polyethylene demand within an 1,100 km radius;
- post-secondary academic and commercialization institutes that collaborate with industry for programming, internships, co-op placements and R&D initiatives;
- gateway access to North America and global markets.

There is a need to revitalize Ontario's existing chemistry cluster to ensure its long-term viability. The next 10 years is a very crucial period for Ontario's chemistry cluster. Modernization and growth projects are needed to revitalize and expand the cluster to extend the life of facilities, retain and create the high-skilled and high paying jobs in Ontario that are instead being created elsewhere.

› Climate Change

Climate Change

The Chemistry Industry Association of Canada recognizes that climate change is an important global public policy issue and that sound environmental stewardship and management of natural resources are fully consistent with good business practices. Clarity of policy is essential in order to plan long-term investment decision-making.

While the reporting aspects of Ontario's emissions performance standard are proposed to be harmonized with the federal backstop, uncertainty remains surrounding federal approval of Ontario's program. Furthermore, as proceeds are collected from large final emitters, we believe that all funds raised should be used to address the challenges faced by covered facilities. We strongly recommend Ontario develop, or advocate to their federal counterparts, for the establishment of two mechanisms that will allow for the recycling of revenues back to industry to invest in their operations to lower GHG emissions. The first mechanism should establish individual accounts for the majority of a Large Final Emitter's (LFE) compliance payments. The second mechanism should be a sectoral fund that receives the remainder of an LFE's compliance payment in the first years and after initial seeding, would pool the unused funds from the individual sector accounts.

The majority of an LFE's compliance payment in any given year should be made available to that LFE for re-investment to improve their GHG emission profile and make that change. The Sectoral Fund would distribute the funds based on a competitive application process that encourages innovation and helps drive continuous improvement in emissions intensity for LFEs. Together, these mechanisms satisfy the principles of placing a price on carbon emissions to incentivize change while addressing the challenge of increased competitiveness, encouragement of innovation, and of continuous improvement.

Recommendation

- 1. Ontario develop and/or advocate to their federal counterparts for the establishment of two mechanisms that will allow for the recycling of carbon pricing proceeds be returned to industry to invest in their operations to lower GHG emissions.**

› Productivity and Competitiveness

Economic Development

The competition for new chemistry sector investments within North America is fierce. We wish to draw your attention to the Canadian Energy Research Institute's (CERI) October 2016 Competitive Analysis of the Canadian Petrochemical Sector¹. That analysis' key finding is that on a level playing field basis, capital and operating costs in Ontario are very competitive with U.S. locations that have seen the vast majority of recent investments. The report goes on to note, however, that the playing field is distinctly not level, and that, on average competing U.S. jurisdictions provide investment assistance totaling 10 to 15 per cent of capital costs. That assistance, via tax-holidays, grants, interest free loans, infrastructure cost sharing and other measures, results in a more attractive destination for investors. We understand research conducted by the Ministry of Economic Development, Job Creation and Trade confirmed these findings.

As the government moves ahead on its review of all business support programs to determine their effectiveness, value for money and sustainability, we encourage the province to develop a range of investment attraction initiatives to secure the large scale, long-life, high-value job creating anchor and add-on investments opportunities that the chemistry sector generates. Instead of direct grants and loans, we recommend Ontario implement a risk-free tax credit approach that does not require the government to disburse funds directly to companies. In similar approach to the ACCA, tax credits must be earned through qualified incremental investments which increase direct and indirect tax revenues.

The primary drivers to locate chemistry investments are proximity to low-cost feedstock (namely ethane), proximity to customers and local fiscal incentives/competitiveness factors. Ontario's location, principally south-western Ontario, hits the first two drivers. However, other jurisdictions have employed aggressive strategies to secure multi-billion-dollar global scale investments. Recent examples worth discussing include the Province of Alberta and the states of Texas and Louisiana.

Alberta

In 2016, the province of Alberta launched its Petrochemicals Diversification Program (PDP) to create jobs, attract investment and diversify its economy. Round 1 included a \$500 million in tax credits and drew \$20

¹ <https://ceri.ca/studies/competitive-analysis-of-the-canadian-petrochemical-sector>

billion in project proposals. After a competitive application process, two projects were approved which total nearly \$8 billion in new investment.

A second round of the PDP recently ended in late 2018. The plan originally included another \$500 million in tax credits. However, investor interest was so strong during the application phase with the province receiving over twenty project proposals worth over \$60 billion. As a result, the government increased the available tax credit by \$600 million to a total of \$1.1 billion. While the 2019 election led to a pause in further use of the PDP program, the government continues to evaluate the received applications under the second round and may yet confirm four projects worth approximately \$20 billion in new investment.

The current Alberta government is now considering including the PDP in the mix to secure new multi-billion investments to the province.

Texas and Louisiana

The states of Texas and Louisiana have strong “open for business” reputations and tremendous success in attracting global scale multi-billion-dollar chemistry investments. Both states use a variety of investment attraction tools at the state and municipal levels. Furthermore, both states have Governors and elected officials frequently meet with the heads of global multinational firms to discuss investment opportunities in their respective states.

While not an inclusive list of investment tools, Texas and Louisiana both implement state-wide enterprise funds, tax credits, exemptions from payroll taxes, municipal property and education taxes, time-based assessment value limits, skills development funds and research and development tax credits. While Ontario offers some incentives, the US states package their programs in a comprehensive approach when engaged in attracting investment.

Recommendation

- 2. Maintain the chemistry sector as a priority sector within the Province’s economic development strategy and actively engage with multinationals to raise Ontario’s profile as a leading chemical manufacturing jurisdiction.**
- 3. Implement a comprehensive framework similar to Alberta, Texas and Louisiana to attract new chemistry sector investments.**
- 4. Ensure predictability and transparency as cornerstones of a new investment attraction framework.**
 - a. Commit to keeping programs beyond election cycles. Maintain programs in place for 8-10 years to give prospective project proponents the certainty and predictability to bring forward meaningful and credible projects.**
 - b. Investment support programs should be transparent and open to any project meeting pre-determined criteria to avoid the appearances of government picking winners and losers.**

Regulatory Reduction Initiatives

CIAC and our members believe in a regulatory environment that protects human health and the environment while encouraging prospects for long-term growth, direct and indirect job creation and improved business conditions for our anchor facilities and the many small and medium-sized firms that

support them. We fully endorse the government's Open for Business Action Plan and the red tape reduction measures taken including Bills 66 and 132.

Opportunities exist to continue to modernize and eliminate unnecessary burdens that create impediments to achieving current policy objectives. We firmly support the elimination of regulations that duplicate existing federal regulations and the streamlining of burdens that added unnecessary time, cost, effort and complexity and, frankly, created impediments to expansions and new investments.

Recommendation

- 5. Continue to eliminate unnecessary and duplicative regulatory burdens to reduce business costs and increase competitiveness while protecting human health and the environment.**

Industrial Electricity Price Mitigation

Ontario's industrial electricity prices (Class A and B) have risen significantly against other North American industrial jurisdictions. In the past, Ontario government officials often cited the differential in corporate income tax rates (CIT) between Ontario and its peers as an offset to higher industrial electricity prices. Following the passage of the *Tax Cuts and Jobs Act* in 2017 many US states have seen their tax rates drop to or below Ontario's CIT rate. This has eliminated any previous advantage Ontario had in CIT rates.

Electricity is a key cost input into the chemistry manufacturing process. It is often the second or third largest cost input into our members' operations (raw materials is first followed by labour or electricity). Not having access to competitive industrial electricity prices puts more pressure on Ontario chemistry facilities to compete internationally for both market share and attract new business investments against their sister facilities.

Recommendation

- 6. Restore industrial electricity price competitiveness and programs that incent new production and facility expansions.**

Protection of Employment Lands and Reform Industrial Property Taxes

The province has continued to recognize the integrity of employment zone areas to prevent unnecessary sensitive land use encroachment. However, proposed provincial policy statements on land use planning may alter this landscape. The proposed changes encourage intensification that may bring sensitive land uses closer to heavy industrial centres. If sensitive land uses encroach on industrial areas, additional environmental mitigations may be imposed through existing environmental regulations that will impact the economic viability of some industries.

CIAC members have experienced a lack of transparency or disclosure with respect to property taxes calculations. This makes it difficult to forecast, plan and budget within their manufacturing operations. Additionally, there is a lack of equity in the administration of Ontario's business "education" tax. While business properties comprise less than 20 per cent of the assessment base, they pay over 50 per cent of the provincial levy. Furthermore, a more balanced tax approach helps to mitigate potential revenue issues should business conditions deteriorate.

Recommendation

- 7. Introduce additional measures to protect industrial employment lands from regulatory creep that force relocation or costly alterations to facilities due to residential or other sensitive land use expansion.**
- 8. Reduce industrial property tax rates and introduce industrial property tax abatement programs to incent investment, expansions and upgrades.**

› Conclusion

The global chemistry industry is on a sustained and robust growth trajectory. Population and innovation forces suggest the volume of global chemical production will triple in the next 20 years.

Each year, hundreds of billions of dollars of new chemistry investments are taking place. Ontario's history as a leading and responsible chemistry jurisdiction suggests we are largely missing out on opportunities that should benefit our province and nation.

The Ontario government has made great strides already in its mandate to restore Ontario's competitiveness to ensure the province does not miss out on these opportunities in the future. The Provincial Budget 2020 provides the opportunity to continue the path of reducing business costs, encouraging business expansion and attracting new investments while ensuring the public interest for human health and the environment are protected.



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