Chemistry Industry

2024 Federal Pre-budget Submission Brief

Submission to:
The Standing Committee on Finance
August 2023

CHEMISTRY INDUSTRY ASSOCIATION OF CANADA

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Our commitment to sustainability.

Recommendations:

1. **Enact Canada's various ITCs into law with the 2023 Fall Economic Statement and in the 2024 Federal Budget.**
2. **Ensure ITCs are focused on incenting investment in Canada.**
3. **Ensure ITCs under consideration, and future investment attraction programs:**
    - **Are Long-lived and available to investors for at least 10 years once operating.**
    - **Sector neutral and available to all proponents.**
    - **Include all investments that result in emission reductions regardless of technology deployed or end-product.**
4. **Extend the Accelerated Capital Cost Allowance Program until at least 2040 with no phase-out or wind down until 2030 to better align with Canada's ITCs for emissions reduction.**
5. **Undertake the review of the SR&ED program referenced in Budget 2022 to make it more fit-for-purpose and broadly accessible.**
6. **Work with industry to deliver a plastics circularity roadmap to enable recycling infrastructure investments.**

Low-Carbon Chemistry Essential to Canada's Economic Future

The world is embarking upon an ambitious transformation to reduce greenhouse gas emissions entering the atmosphere. Canada's *Net Zero Accountability Act*--passed in 2021--legally mandates our progress towards net zero emissions by 2050. Chemistry products offer solutions to the pathways of energy efficiency, net-zero emissions, and a circular economy. With more than 95% of manufactured goods relying on chemistry, the opportunities to grow this sector as we move to lower emissions are clear and crucial to reach the stated goals. As the graphic below shows, Canada's low-carbon chemistry solutions will be vital to transitioning to a low-carbon economy.

The world is increasingly demanding products with the lowest emissions intensity possible and investors are taking notice. In recent years, environmental considerations have risen to the top of investor agendas. The question for Canada is whether we will produce the low-carbon chemistry and plastics here or import these products from jurisdictions who aggressively courted these investments. We should not underestimate the scale of the challenge to compete. It has been one year since the *Inflation Reduction Act (IRA)* was signed into law in the United States, fundamentally altering the investment landscape by aggressively incentivizing low-carbon investments. In the past year, Europe, the Middle East and China have mobilized their resources with generous incentive programs to raise their competitiveness profiles.

Canada currently has $200-300 billion in chemistry production infrastructure, most of which is several decades old. As we look to the future, this asset base will need to be re-capitalized with decarbonization in mind and greenfield investment will be required to meet growing global demand for chemistry and plastic products. These transformations will require billions of dollars of investment. Over the past two years, 15 major projects to reduce emissions in the chemistry sector worth over $30 billion have been announced. These projects will lower emissions while increasing output. These announcements are welcome but are only a fraction of what is required and as of today they are only announcements, none have moved into construction. Moving forward, the challenge before us is both exciting and daunting.

To date, Canada's climate change policy has focused on building a framework for pricing greenhouse gas emissions (GHGs), but incentives to industry outside of specific sectors- has been limited. In the case of heavy industry emissions covered by provincial or the federal Output Based Pricing System (OBPS) framework, only a small portion of the money collected is sent back directly to the sectors creating the emissions. The lack of investment incentives is weighing on Canada's competitiveness.

We must create a competitive regulatory and policy landscape that welcomes private capital. Key features of a competitive landscape include:

- Long-lived, transparent, and broad-based investment attraction programs, based on Canada's a-political tax code, that entice both brownfield and greenfield capital investments.
- A dynamic research and development (R&D) ecosystem.
    - Led by a long-term focus and underpinned by undertaking the long-promised review of the Scientific Research and Experimental Development (SR&ED) tax credit.

Enact Broad-based Investment Tax Credits into Law

Since Budget 2020, the government has been consulting on investment tax credits (ITCs) for low carbon investment. ITCs cannot be claimed unless investments are made, directly incenting growth in

the economy. ITCs for Carbon Capture Utilization and Storage (CCUS), Clean Hydrogen, Clean Manufacturing and Clean Electricity have been focal points for several years now with multiple rounds of consultations already conducted or underway. These should become law as soon as possible, notably given the introduction of the Inflation Reduction Act in the United States. Ideally, we would like to see the legal text of the ITCs tabled with the 2023 Fall Economic Statement and in the 2024 Federal Budget. Investors are eager to make investments but require more certainty before making final investment decisions.

ITCs are at their strongest when they are broad-based, transparent with clear up-front criteria for how they are to be claimed and in place for at minimum ten years once operational. ITCs should be focused on attracting investment. The Alberta Petrochemicals Incentive Program and the Accelerated Capital Cost Allowance are examples of investment incentives that are clear and broad-based, providing certainty to investors. We urge the government to keep its focus on attracting investment with the ITCs and to deal with other policy areas through separate programs.

Within the ITCs for CCUS, Clean Hydrogen, Clean Manufacturing and Clean Electricity, the government has chosen to prescribe specific technologies and pathways. There are many pathways to net zero; emissions reductions in industrial sectors will occur over time as capital investments are made and as new technologies and processes come to market. We recommend a broader approach that recognizes that we do not know how emissions reduction technologies and pathways will evolve. Industry globally is in the early stages of emissions reductions and new pathways will emerge as companies examine their sectors, facilities, and processes. The ITCs should be flexible and allow for new technologies and equipment to qualify for ITC treatment as long as the investments reduce emissions intensity of end products.

Recommendations:

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Re-Commit to the Accelerated Capital Cost Allowance

In 2018, the federal government introduced the 100% Accelerated Capital Cost Allowance (ACCA) for major capital projects (specifically Class 53 equipment). This program is set to operate through 2028 and begins to phase-out for property that becomes available for use after 2023. These timelines do not align with recent investment attraction programs or with the ITC timelines the government is consulting on, nor do they acknowledge the scale and breadth of investment required to meet Canada's low-carbon goals. Extending the ACCA is a straightforward and transparent way to ensure that billions of dollars' worth of investment and tens of thousands of jobs are created. At a minimum, the government should re-commit to the ACCA until 2040 with no wind down or phase out until 2030 to align with its emissions reduction ITCs. We would go as far as to recommend that the government make the ACCA permanent to provide a long-term signal to Canada's manufacturing sector that

Canada values and intends to re-capitalize its manufacturing base as we transition to a low-carbon future.

Recommendation:

4. **Extend the Accelerated Capital Cost Allowance Program until at least 2040 with no phase-out or wind down until to 2030 to better align with Canada's ITCs for emissions reduction.**

Innovation in Chemistry and Plastics Requires Strong Policy Frameworks

The chemistry industry is one of the most research-intensive industries in the global economy. Chemistry consistently ranks as the world's second most patented industry after Information Technology and, in Canada, it employs the second highest rate of university graduates behind electronic and computer manufacturing. However, Canada falls behind other jurisdictions in attracting private chemistry research and development (R&D) mandates. Budget 2022 committed to a review of the Federal Scientific Research and Experimental Development (SR&ED) tax Incentive program, however, to date there has been no progress on this review. As it stands today, the SR&ED program is difficult to access and onerous to companies. As such, we strongly support reviewing SR&ED. A review of SR&ED should not be prescriptive and need not stick to the status quo. Innovation is not a static process occurring only in a lab. Innovation occurs across the supply and process value chain and can transpire in many different forms. If there are ways to fundamentally reform SR&ED, expand the program and make it more effective while keeping to the goal of attracting R&D mandates to Canada, the government should consider all options.

Recommendation:

5. **Undertake the review of the SR&ED program promised in Budget 2022 to make it more fit-for-purpose and broadly accessible.**

According to a 2021 study by commissioned by Environment and Climate Change Canada, Canada's recycling infrastructure capacity gap will require a capital investment of $4.6 - $6.5 billion. Being open-minded on innovation policy will be critical to plastics circularity and the decarbonization success of Canada's manufacturing sector.

Canada needs transformational system change to address current recycling challenges and meet the demand for recycled plastics – to keep plastics in the economy and out of the environment. Under current trends, global demand for plastics is forecasted to triple by 2050 to not only meet our climate change and sustainability goals, but to meet the needs of developing countries as their populations transition to middle class and their desire for material goods increases. Nearly 60% of this demand could be covered by production based on previously used plastics. Today's supply of recycled plastics only meets 6% of real demand. Effective and efficient post-use management of plastics requires a collaborative approach between governments and industry, to deliver against a strong innovation and circularity roadmap, with the public sector enabling infrastructure investments through key tools and measures at its disposal. By supporting innovation and accelerating investment in recycling infrastructure across Canada, Canada can demonstrate its leadership and commitment to addressing plastic pollution.

Recommendation:

7. Work with industry to deliver a plastics circularity roadmap to enable recycling infrastructure investments.

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