CHEMISTRY INDUSTRY ASSOCIATION OF CANADA

Chemistry Industry

2023 Ontario Pre-Budget Consultation

SUBMISSION TO
Hon. Peter Bethlenfalvy
Minister of Finance

Recommendations:

1. **Develop an Ontario Action Plan to attract transformative investments in the Chemistry and Plastic Sectors.**

2. **Enable Invest Ontario to attract investment**

3. **Continue to build on successes of Ontario's Red Tape Reduction**
    a. **Reduce Environmental Compliance Approval Processing Time**
    b. **Develop a Carbon Capture, Utilization and Storage regulatory framework**
    c. **Develop a Proceeds Recycling program for the Emission Performance Standard**

4. **Advocate for Ontario business interests with the federal government**
    a. **Accelerated capital cost allowance**
    b. **Carbon capture utilization and storage tax credit**
    c. **Clean Hydrogen Investment Tax Credit**

5. **Establish Ontario as a regional leader in the circular economy**
    a. **Recognize advanced recycling**
    b. **Support for recycling innovation and infrastructure**

The Chemistry Industry Association of Canada (CIAC), on behalf of its membership, welcomes the opportunity to provide our input to the 2022 Ontario Budget consultation. We firmly support the government's unprecedented efforts to support Ontario's people and businesses in the continued fight against the COVID-19 and maintain a focused effort to create the conditions for long-term economic growth and prosperity.

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, particularly as the provinces looks to post-pandemic economic recovery, 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 IS CRITICAL TO ONTARIO'S ECONOMY

Ontario's $29 billion chemical manufacturing industry is a significant contributor to our country's economy. The sector is directly responsible for 38,300 jobs and pays approximately $3.32 billion in salary and wages. The industry supports an additional 191,500 jobs in the overall economy across the province.

- In 2021, industry shipments were $29.2 billion ($11.6 billion in industrial chemicals) and $15 billion in plastic products.
- 3rd in value of shipments behind Transportation Equipment and Food.
- 3rd in value-added manufacturing output.

More than 95 per cent of all manufactured products rely on chemistry and there is a growing global demand for chemicals and plastic resins with the lowest carbon production available.
Chemistry and plastics help all Canadians reduce emissions in key sectors:

- green buildings including innovative insulation to prevent heat and cooling loss in homes
- sustainable transportation by making vehicles lighter; powering batteries in electric vehicles
- clean energy such as solar and wind turbines
- sustainable agriculture
- lightweight food packaging that prevents spoilage

› Recommendation: Develop an Ontario Action Plan to attract transformative investments in the Chemistry and Plastic Sectors.

The global chemistry industry is a story of innovation and incredible growth, well in excess of global GDP growth rates. Despite the North American chemistry industry's unprecedented growth principally due to the abundant and low carbon supply of natural gas liquids, Ontario has become a fly-over destination.

The chemistry sector is on the cusp of two major transformations – the transformation to net-zero carbon emissions, and the transformation to a circular economy for plastics. While Ontario has taken important steps to improve the regulatory climate, urgent attention is needed to ensure the province does not continue to be a fly-over destination for global chemistry investors.

A recent study conducted by IHS Markit concluded that Ontario's $26-billion chemistry industry has never before faced such serious challenges to its viability as the petrochemical industry transitions to a Net-Zero future. The study found that Ontario provides the least competitive investment conditions across the five major and competing chemistry regions in North America. It cautioned that the status quo cannot be taken for granted and that if immediate action is not taken to attract capital investment, the sector would fall even further behind, and likely lead to eventual plant closures.

In the United States alone, more than C$300 billion in chemistry investments across more than 300 projects have been tracked in the current business cycle. Furthermore, provincial policies implemented in Alberta and Quebec have generated significant chemistry sector growth projects. Recent examples include:

Alberta:

- Dow Chemicals net-zero carbon emissions ethylene and derivates complex (investment amount estimated to be $multi-billions) in Fort Saskatchewan.
- Inter Pipeline Limited's $4.5 billion polypropylene production facility Heartland Petrochemical Complex
- Nauticol Energy. Net Zero Blue Methanol Project. In development stages with potential in-operation date as early as 2025. Investment total ~$1 billion
- Air Products. ~$1.3 billion Blue Hydrogen. Decision yet to be confirmed but planned for 202
- Shell/Mitsubishi hydrogen project. Recently announced partnership to explore building new facility that would come online later this decade
- ATCO/Suncor. Decision by 2024, in operation by 2028. No cost details released
- Petronas/Itochu - $1.3 billion Blue Hydrogen/Ammonia plant for export to Asian markets. Pre-feasibility phase since announcement in August 2021.

Quebec:

- Air Liquide already operates a Hydrogen complex in Bécancour. New facility added earlier this year to leverage off Quebec's zero emission hydro network and proximity to eastern North America transportation market.
- Nouveau Monde Graphite development of phase-2 Bécancour battery material plant.
- Nemaska has selected a preferred site within the Bécancour Industrial park and port to construct and operate a lithium chemical conversion facility.

CIAC is calling on the province to develop an Action Plan like that undertaken for the auto sector to attract capital to ensure the successful renewal and transformation of the sector. This effort must focus on creating a competitive business environment, supporting innovation and commercialization of new technologies and improving the talents and skills of Ontario's workforce.

In addition to maintaining the economic contributions from the province's third-largest manufacturing sector, this renewal and transformation will contribute to Ontario's circular economy and climate change objectives while also maintaining the viability of other priority provincial sectors served by chemistry, including automotive, mining, forestry and agri-food.

› Recommendation: Enable Invest Ontario to attract investment

As the government moves ahead on its plans to operationalize Invest Ontario, 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 and plastics sectors generate. In addition to direct grants and loans, we recommend Ontario consider utilizing the apolitical tax code to incent private sector investment without the need to disburse funds directly to companies.

Initiatives for Ontario Government

1. 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.
2. Implement a comprehensive investment attraction framework like the Alberta Petrochemical Investment Program and U.S. State-level tax credit programs such as Pennsylvania, Texas or Louisiana to attract new chemistry sector investments. A competitive framework should be guided by the following principals:
    - **Certainty and predictability in carbon policy and revenue recycling** will underpin chemistry and plastic sector investments to help our industry and others (including the federal government) achieve society's net zero ambitions.
    - Certainty and predictability are eroded with layering of multiple policies and priorities on Carbon Pricing (Clean Fuels Regulation, Clean Electricity Regulations, Oil & Gas Emissions Cap)
    - Policy actions should **avoid stranding previous investments** in emissions reductions that generate capital, credits, or offsets.
    - Ensure future **investment attraction programs are long-lived** and are available to investors for at least 10 years once operating.
    - Utilize Ontario's tax code to **increase transparency, program access and uptake by private sector capital**.
        - Newley developed investment incentives should be technology agnostic as long as these investments reduce emissions or result in emissions reductions above prevailing industry rates.
        - Tax measures should be outcome based with clear eligibility criteria providing predictability and certainty.
        - **Application review behind closed doors erodes predictability and certainty**. Eligibility criteria and technical guidelines should be established upfront and there should limited or no review processes upfront to confirm eligibility.

› Recommendation: Continue to build on successes of Ontario's Red Tape Reduction

CIAC and its 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 support the government's planned Advanced Manufacturing Council and plans to engage in industry consultation groups to develop red tape reduction initiatives. We also heartily endorse the province's most recent red tape reduction action that proposes to remove the restriction on the geologic storage of carbon in the Oil, Gas and Salt Resources Act. We also recognize the Ministry of Environment, Conservation and Parks' (MECP) recent initiatives including recognizing carbon capture and storage in the Emissions Performance Standard 2023 – 2030 program and the implementation of the electronic hazardous waste manifest program that digitizes an outdated paper-based process.

Opportunities exist to continue to modernize and eliminate unnecessary burdens that create impediments to achieving current policy objectives. Continued efforts in red tape reduction are needed. These include:

- **Reduce Environmental Compliance Approval Processing Time:**
  - Recent efforts have been taken to speed up the approvals process in Ontario to streamline the process for lower risk projects (Environmental Activity and Sector Registry) and setting a 1-year service standard for complex Environmental Compliance Approvals (ECA). However, the time taken for the issuance of ECAs continues to be a major issue for industry.
  - Cases of delays beyond the 1-year service standard in receiving an ECA remain for our sector. This experience acts as a deterrent for domestic and foreign-based companies seeking to invest in their Ontario subsidiaries to expand or modernize facilities. CIAC Ontario members are competing for new investment mandates which yield environmental improvements over existing operations. This causes further frustration and irony in the delay and a lack of confidence in the certainty of Ontario's regulatory framework.
- **Develop a Carbon Capture, Utilization and Storage regulatory framework**
  - As noted, the proposal to remove the restriction on geologic storage of carbon in the Oil, Gas and Salt Resources Act is a positive first step. Ontario will need to build upon this base to focus on transforming CO2 from a waste into valuable products. This takes what is currently being proposed as Carbon Capture and Storage (CCS) and to become a comprehensive Carbon Capture Utilization and Storage (CCUS) solution.
- **Develop a Proceeds Recycling program for the Emission Performance Standard**
  - We believe it is imperative for the province that the proceeds collected from regulated emitters be used to address the decarbonization challenges faced by regulated facilities and to address carbon leakage risks. We strongly recommend Ontario establish 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. At the approval of the MECP, regulated facilities would then be able to draw from this account for re-investment in decarbonization projects to improve the facility's GHG emissions intensity. The process should be simple and minimize activities that are not value added.
    - The second mechanism should create a sectoral fund that pools the unused funds from the individual LFE accounts after a defined period of time (to be

determined with input from industry). The Ministry would be responsible for distribution of these funds based on a competitive application process that encourages technical innovation, energy efficiency improvements, switching to more carbon-efficient fuel sources, and would help drive continuous improvement in emissions intensity for regulated emitters.

Together, these mechanisms satisfy the principles of placing a price on carbon emissions to incentivize change, while addressing the challenge of increased competitiveness.

› Recommendation: Advocate for Ontario business interests with the federal government

Accelerated Capital Cost Allowance

The 100 per cent Accelerated Capital Cost Allowance (ACCA) program is set to operate through 2028, subject to a phase-out for property that becomes available for use after 2023. Good capital projects interrupted by the pandemic should not be put at further risk because they miss a program window. Ontario should advocate for and match an extension of the 100 per cent ACCA for major capital projects (specifically Class 53 equipment). Strong consideration should be given to extending the measure until at least 2040 to recognize the business planning cycle for major capital expenditures and eliminating the phaseout provisions. Furthermore, consideration should be given to making the allowance permanent to provide long-term certainty to capital intensive investors.

Carbon Capture Utilization and Storage Tax Credit

The CCUS ITC is set to run from 2022 until the end of 2040. This proposed credit recognizes the long-term planning required to bring de-carbonization technologies to scale and massive capital investment for CCUS projects. Ontario should closely monitor the development of the federal CCUS ITC. Once Ontario's regulatory framework for CCUS is in place later in 2023, policymakers should consider adopting the federal ITC for provincial taxation and could even strengthen the incentive to spur CCUS investment.

Clean Hydrogen Investment Tax Credit

Ontario should closely monitor the development of the federal Clean H_2 ITC. Once the federal ITC is outlined, likely in the early spring with Budget 2023, Ontario's policymakers should consider adopting the federal ITC for provincial taxation and should strengthen the incentive to spur clean hydrogen investment. Ontario must ensure that the Clean H_2 ITC align and work with provincial tax credit programs and that it does not impinge on other funding mechanisms that project proponents may utilize. This includes grants, other investment credits, emissions trading and credit generating programs and accelerated depreciation measures.

› Recommendation: Establish Ontario as a regional leader in the circular economy

Ontario has the scale in the chemicals sector to deliver advanced plastics recycling for the province and other parts of Canada. We believe Ontario should establish itself as a regional innovation hub that can develop, scale up and commercialize new advanced recycling technologies for adoption throughout

North America and the world. Ontario risks falling behind several U.S. states that have already recognized advanced recycling technologies to accelerate their transition to a more circular economy.

Recognize advanced recycling

We commend the government for implementing a streamlined environmental assessment process for advanced recycling facilities. To truly realize the potential in the circular economy for plastics, Ontario must include advanced recycling of post consumer plastics into the Extended Producer Responsibility diversion calculation. Advanced recycling and energy recovery technologies such as pyrolysis and gasification can help ensure valuable resources — such as hard-to-recycle plastics — don't end up in landfill and can instead have a beneficial use, such as feedstocks for new plastics and synthetic industrial fuels.

Support for recycling innovation and infrastructure

The transition to a circular economy for plastics will require significant public-private investment in plastics recycling innovation and infrastructure. Ontario has a unique opportunity to be a leader in plastic recycling. Our large population and the expansion of its Blue Box program will provide a stable supply of feedstock, a necessity to scale recycling. Ontario could soon be positioned as a regional recycling hub that could capitalise on access to post-consumer and post-industrial plastics from the U.S, including Great Lakes States, leading to significant market expansion, capital investment, job creation as well as greater market efficiencies, scale, and feedstock for innovative advanced recycling technologies.

CIAC is advocating for the establishment of a public-private Circular Plastics Innovation Fund and Recycling Infrastructure Fund to enable the advancement of these priorities in support of the aggressive timelines set out. The Government of Ontario has an important role to play to ensure that recycling innovation and infrastructure aligns with provincial priorities and policy objectives and to enable joint public-private financing of projects.

CIAC has developed a proposal for two distinct private-public funding partnerships to accelerate the transition to a circular economy for plastics. The two programs are:

- **Circular Plastics Innovation Fund**
  A technology innovation fund focused on accelerating pre-commercial technology for advanced recycling with a focus on industrial decarbonization, packaging design and technology acceleration for advanced recycling. CIAC has been engaging with various federal departments as well as other organizations to establish this fund.
- **Recycling Infrastructure Fund**
  A technology innovation fund to support the deployment of modern commercial technologies for improved sortation and mechanical recycling. Investment in recycling infrastructure remains a key priority within both federal and provincial mandates to meet both the growing demand for recycled content and the growing supply brought forth by augmented provincial Extended Producer Responsibility programs.

Chemistry Industry Association of Canada

The Chemistry Industry Association of Canada (CIAC) is the Association for leaders in Canada's chemistry and plastics sectors. Our members are innovators, solution providers, and world-class stewardship pioneers.

We work to shape public policy which supports investment, jobs, and the environment. We take pragmatic and evidence-based approaches which represent our members' interests and benefit all Canadians.

CIAC founded Responsible Care®, a chemistry ESG and the industry's globally recognized sustainability initiative, in 1985. Since then, our commitment to its ethic and principles has never wavered. At our core, we believe it is imperative "to do the right thing and be seen to do the right thing." Additionally, CIAC Plastics Division members have committed to Operation Clean Sweep®, a program dedicated to eliminating the release of industrial plastics to the marine environment.

Ontario's Chemistry and Plastics Sectors

Ontario's $29-billion chemistry industry is the third largest manufacturing industry in the province, directly employing over 38,000 Ontarians in well-paying jobs and supporting another 190,000 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, mining, construction, and food and beverage as well as supporting Ontario's COVID-19 response with materials for PPE and sanitizer supplies. Ontario remains Canada's largest chemistry jurisdiction accounting for 44% of the nation's chemistry output.

Ontario's $15 billion plastics manufacturing sector is the largest in Canada. Our sector exports $7.9 billion worth of goods, directly employs 49,000 Ontarians and provides $2.3 billion in wages. Plastics are sustainable, durable and lightweight. These attributes make plastics a key piece to helping other industries lower emissions, including automotive, construction, food and beverage, among others.