CHEMISTRY INDUSTRY
ASSOCIATION OF CANADA

Chemistry Industry
2021 Ontario Budget Consultation

SUBMISSION TO
Hon. Peter Bethlenfalvy
Minister of Finance

Recommendations:

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 similar to Alberta and Pennsylvania to attract new chemistry sector investments that includes:**
   a. **Program timelines in place for 8-10 years to give project proponents the certainty and predictability to bring forward significant capital investments.**
   b. **Openness and transparency should be paramount, investment supports should be available to any project meeting pre-determined criteria to avoid the appearances of government picking winners and losers.**
3. **Advocate for and match federal measures to extend the full 100% Accelerated Capital Cost Allowance with no phase-out to 2030 and consider making it permanent to offset the damage of the COVID-19 pandemic.**
4. **Continue to eliminate unnecessary and duplicative regulatory burdens to reduce business costs and increase competitiveness while protecting human health and the environment.**
5. **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.**
6. **Reduce industrial property tax rates and introduce industrial property tax abatement programs to incent investment, expansions and upgrades.**
7. **Ontario establish 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.**

› Ontario's Chemistry Industry

The Chemistry Industry Association of Canada (CIAC), on behalf of its membership, welcomes the opportunity to provide our input to the 2021 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.

CIAC also wishes to recognize key measures announced in the Fall 2020 Budget that see the government take concrete steps to create the conditions for long-term economic growth and prosperity. Of note, we highlight the following items:

- New Electricity Plan for Growth & Job Creation that reduces the burden to industry of the high-cost energy contracts and better positioning Ontario against key competing jurisdictions.
- Reducing taxes for job creators.
- Continued commitment to cut unnecessary red tape through the Open for Business Action Plan.
- Modernizing Ontario's skilled trades and apprenticeship program.
- Launching the Invest Ontario organization and focusing its efforts on advanced manufacturing, life sciences and technology.

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 Industry Association of Canada

CIAC represents companies that produce industrial chemicals (including petrochemicals, bio-based chemicals, inorganic chemicals and resins) that are essential building blocks and empower the broader manufacturing sector including small- to medium-sized firms in Ontario and the rest of the country. In fact, 95 per cent of all manufacturing goods including plastics are touched by chemistry.

Many of our member-companies are foreign-based multinationals that must compete both globally for market share, and within their own organizations for new investment capital. Additionally, CIAC represents nearly 150 plastics value chain members with operations in every province that includes resin producers, converters, brand owners and recyclers.

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.

2021 Economic Forecast

Recent polling of our members indicates that our sector is forecasting a 7 – 9 per cent reduction in shipments for the 2021 fiscal year. This outlook is due to a combination of higher customer order levels during the first stage of the pandemic as a defensive strategy to avert any potential blockage in supply chains due to the COVID-19 crisis and, more recently, slower demand by international customers reflecting an overall global economic downturn.

Ontario's Chemistry and Plastics Sectors

Ontario's $24.7-billion chemistry industry is the third largest manufacturing industry in the province, directly employing over 43,800 Ontarians in well-paying jobs and supporting another 260,000 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. Additionally, Ontario's plastics manufacturing sector is a $15 billion industry, directly employing over 48,700 Ontarians within 828 different businesses. The plastic sector is an SME sector, fully 75 per cent of Ontario's plastic product manufacturers employ less than 100 workers.

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. In particular, the average salary within industrial chemicals sector in Ontario is $100,900, nearly double the amount of the average salary ($56,900) across all manufacturing industries in the province. The 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.

› Productivity and Competitiveness

Economic Recovery

Utilize fiscal and monetary policy tools to support consumer confidence throughout the economy. A key element that supported the financial crisis of 2008-09 recovery included infrastructure investments, tax credits and incentives for businesses and homeowners. Infrastructure projects that improve goods movement, our global competitiveness and linkages to international markets must be improved.

The COVID-19 pandemic severely disrupted the normal investment cycle. In its most recent Business Outlook Survey, the Bank of Canada found that "firms signaled a significant decrease in capital spending over the coming months with the balance of opinion on investment intentions in machinery and equipment turning to a near-record low." 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 to 2030 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.

Economic Development

Beyond the NOVA Chemicals $2.2 billion expansion to its Sarnia-Lambton facility, the Sarnia-Lambton advanced manufacturing cluster is in need of infrastructure renewal and modernization to maintain its long-term competitiveness and viability. A closure of an anchor facility in the cluster will impact the viability of remaining facilities.

Prior to the COVID-19 pandemic, the competition for new chemistry sector investments within North America was fierce. As state and provincial governments focus on economic recovery, we see the competition for attracting new chemistry sector investments becoming fiercer.

Alberta

In Fall 2020, the province of Alberta launched its Alberta Petrochemicals Investment Program (APIP) as part of Alberta's Recovery Plan. APIP will provide grants to companies to attract investment in new or expanded market-driven petrochemical facilities. APIP has a 10-year program period during which eligible projects must be built and operational to receive funding. Furthermore, the program will follow an open and transparent approach, whereby every project submitted that meets the program's criteria will receive funding once built and operational. Furthermore, the province released a Natural Gas Strategy which targets growth opportunities for the petrochemical and plastics sectors to position the province as a global leader in petrochemical production and circular economy innovation.

Pennsylvania

Beginning in 2017, any manufacturer purchasing natural gas containing ethane as a petrochemical feedstock at a facility within the Commonwealth could be eligible for a Pennsylvania Resource Manufacturing (PRM) Tax Credit equal to five cents per gallon ($2.10 per barrel) of ethane purchased and used in manufacturing ethylene, so long as the company makes a capital investment of at least $1 billion and creates the equivalent of at least 2,500 full-time jobs while constructing the manufacturing facility. Effective for ethane purchased between Jan. 1, 2017 and Dec. 31, 2042.

In July 2020, the State of Pennsylvania created a new "local resource manufacturing tax credit" for companies that invest at least $400 million and create at least 800 construction and permanent jobs to build petrochemical or fertilizer plants that use dry natural gas produced in Pennsylvania. Starting in 2024, the new legislation authorizes 25 years of tax credits up to almost $26.7 million a year, to be divvied up among no more than four facilities that each can draw a maximum credit of just under $6.7 million. That totals almost an additional $670 million.

InvestOntario

As the government moves ahead on its plans to launch InvestOntario, 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.

Recommendations

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2. **Implement a comprehensive investment attraction framework similar to Alberta and Pennsylvania to attract new chemistry sector investments that includes:**
    a. **Program timelines in place for 8-10 years to give project proponents the certainty and predictability to bring forward significant capital investments.**
    b. **Openness and transparency should be paramount, investment supports should be available to any project meeting pre-determined criteria to avoid the appearances of government picking winners and losers.**
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Regulatory Reduction Initiatives

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 endorse the government's Open for Business Action Plan and the Red Tape Reduction measures taken including Bills 66, 132 and 213.

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

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

Protection of Employment Lands and Reform Industrial Property Taxes

Protecting the integrity of employment zone areas to prevent unnecessary sensitive land use encroachment is vital to ensure Ontario's manufacturing base remains vibrant and globally competitive. CIAC is encouraged that the province has announced plans to update Ontario's land use compatibility planning guidelines to help municipalities prevent new residences or other incompatible land uses from being approved near sites and industries that may create noise or odour impacts. However, the province must insist that municipalities follow existing land use planning requirements and maintain defined buffer zones to prevent sensitive land uses from encroaching on existing industrial areas. Failing to do so will force additional environmental mitigation burdens on industry which may affect the economic viability of our facilities and create local community tensions that would otherwise be avoided.

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.

Recommendations

5. **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.**
6. **Reduce industrial property tax rates and introduce industrial property tax abatement programs to incent investment, expansions and upgrades.**

› Climate Change

The Chemistry Industry Association of Canada recognizes the Province's efforts to obtain equivalency for its Emissions Performance Standard by the federal government. 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. We believe it is important for the Province that the proceeds collected from large final emitters should be used to address the challenges faced by covered facilities. We strongly recommend Ontario establish two mechanisms that will allow for the recycling of carbon pricing proceeds be returned to industry to invest in their operations to lower GHG emission

- 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 pools the unused funds from the individual LFE accounts after a defined period of time.

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. 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

7. **Ontario establish 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.**

› Conclusion

The road to recovery from the COVID-19 pandemic, as well as confronting the policy challenges of climate change, plastic waste and the transition to a low carbon future will require chemistry solutions.

More than 95% of all manufactured products rely on chemistry. Ontario's chemistry sector produces important water treatment, disinfection chemicals and resins for packaging which serve essential roles in life-saving medical care and ensuring secure food supplies.

Ontario's chemistry sector has been resilient throughout the COVID-19 pandemic. Our facilities have remained operational and we continue to supply the products Canadians use in their everyday lives. We believe Ontario will benefit with more good chemistry.

CHEMISTRY INDUSTRY ASSOCIATION OF CANADA

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