



**CHEMISTRY INDUSTRY  
ASSOCIATION OF CANADA**

# **Ontario Chemistry Industry 2018 Pre-budget Consultation**

**December 2017**



**SUBMISSION TO  
The Standing Committee  
on Finance and Economic Affairs**



## **CHEMISTRY INDUSTRY ASSOCIATION OF CANADA**

The Chemistry Industry Association of Canada (CIAC) is the voice of Canada's \$53 billion chemistry industry and represents leading companies engaged in the manufacture of industrial chemicals in Canada. The products that we produce are critical inputs to almost all other manufacturing industries. Fully 95% of all manufacturing products are touched by chemistry.

Members of CIAC are signatories to Responsible Care® – the association's U.N.-recognized sustainability initiative. Responsible Care® inspires its members to take actions that improve the sustainability of their operations and reduces harm throughout the entire life cycle of their products.



## ➤ Introduction

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 2018 pre-budget consultation. We acknowledge and commend the Province's return to a balanced budget. Though, we are very concerned that the size of the debt will lead to increases in corporate tax or other measures that will ultimately further undermine the economy or jeopardize the attractiveness of Ontario as an investment location.

The chemistry industry is the fastest growing manufacturing sector in North America. Chemistry manufacturing facilities have a life cycle of 30 plus years. Not securing these investments now means Ontario misses out on decades 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.

## ➤ Responsible Care®

CIAC's Responsible Care program is a United Nations-recognized sustainability initiative launched in 1985 in Canada and now adopted in over 60 countries in the world. It is our commitment to sustainability – the betterment of society, the environment, and the economy. Responsible Care is our way of ensuring our member-companies not only meet government regulations, but exceed them.

Through Responsible Care, CIAC member-companies strive to “do the right thing and be seen to do the right thing.” They innovate for safer and greener products and processes, and work to continuously improve their environmental, health and safety performance.

## ➤ We add value to Canada's natural resources

Chemistry is an enabling industry, uniquely positioned in the value chain between raw natural resources and downstream manufacturing industries selling goods to consumers. Our members use inputs like natural gas liquids, crude oil, minerals and biomass and convert them into value-added products, adding 10 times and more to the initial value of the raw resource. When these products are further upgraded by our customers into products such as automotive and aerospace components, medical devices, wind turbines and solar panels, packaging as well as communication equipment, the value-added multiple increases even higher.

## ➤ Ontario's Chemistry Industry

Ontario's chemistry sector is an important contributor to the provincial economy and the largest contributor to Canada's chemistry industry. Ontario's chemical industry had annual output of \$22 billion in 2016, the 3rd largest manufacturing sector in the province. The chemical industry is the 2nd largest exporter, shipping \$21 billion worth of goods to global markets in 2016. We directly employ over 44,000 Ontarians, and indirectly support another 220,000 jobs in the province. Among all manufacturing industries, chemicals rank #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.

## ➤ Environmental Stewardship

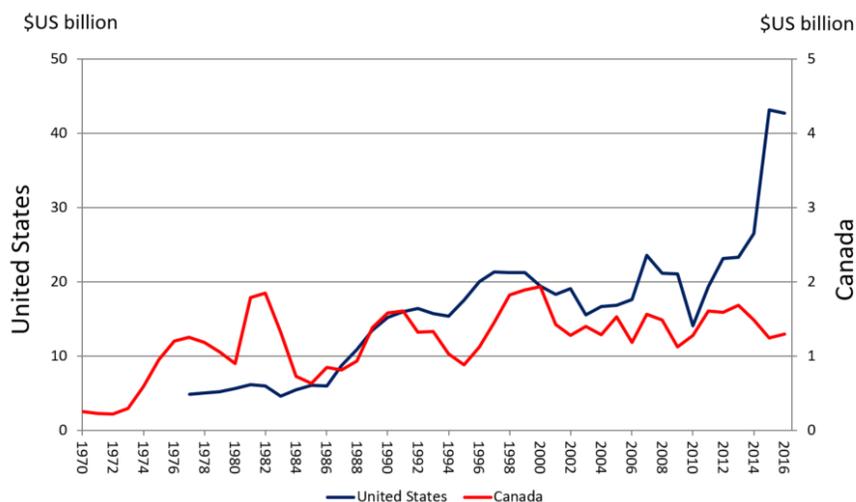
Productivity improvement within the chemistry industry is dependent upon the degree to which our sector succeeds in attracting investments as new projects always utilize the latest and most efficient technologies, leading to both economic and environmental benefits. The industry's goal is to attract investments to add value to our natural resources, using those as an opportunity to deploy best available technologies. For decades, the chemistry industry has been actively involved in implementing initiatives that improve the sustainability of their operations and reduce harm throughout the entire life cycle of their products. Since 2004, CIAC member-companies in Ontario have voluntarily achieved the following environmental results:

- |                            |               |
|----------------------------|---------------|
| • Carbon Dioxide           | 38% reduction |
| • Benzene                  | 52% reduction |
| • Sulfur Dioxide           | 84% reduction |
| • Nitrous Dioxide          | 61% reduction |
| • Total Particulate Matter | 70% reduction |
| • Carbon Monoxide          | 17% reduction |

## ➤ Investment Rejuvenation

The global chemistry industry is a story of innovation and incredible growth, well in excess of global GDP growth rates. The North American chemistry industry is experiencing unprecedented growth. In the United States alone, more than C\$250 billion in chemistry investments across more than 300 projects have been tracked in the current business cycle. In addition, there are another 675 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. For an up-to-date summary of the chemicals and plastics processing investment activity occurring in the United States, please refer to the American Chemistry Council's June 2, 2017 Notes on Shale Gas, Manufacturing and the Chemistry Industry (Attachment 1).

The following chart illustrates the diverging trend in investment activity for the chemistry sector between Canada and the United States. Up to 2010, Canada held steady at roughly 10% of the United States investment value. However, since 2010, the activity in the United States has dramatically increased (as noted earlier) while investment activity in Canada has remained near 2010 levels. Ontario must win more of the investment activity coming to North America.



## Ontario Opportunities

The chemistry industry has been in a slow decline for more than two decades in Ontario. However, Ontario's chemistry sector does have several strengths to spur growth. These include:

- Sarnia-Lambton's proximity to cost-competitive shale gas production in the northeastern United States;
- Established clusters with key infrastructure and skilled labour;
- An evolving bio-hybrid chemistry cluster supporting the commercialization of industrial biotechnology.

These strengths have contributed to CIAC member companies making over \$1 billion in new production capacity in Ontario since 2012. However, Ontario has the potential to attract much more chemistry investment activity. Based on historical trends, Ontario should have seen a further \$8 to \$10 billion worth of chemistry investments.

## Productivity and Competitiveness

### Investment Attraction

In the chemistry sector, Canada is competing globally for the next wave of investments. For Canada, this means attracting both incremental and new investments. Recent efforts by Ontario including maintaining the chemistry as an eligible sector within the \$2.7 billion Jobs and Prosperity Fund have shown a commitment to grow the sector. This is complimented by the recent federal

initiative, influenced by Ontario in part, to broaden the scope of the Strategic Innovation Fund to include advanced manufacturing.

The recent report from the Parliamentary Standing Committee on Industry, Science and Technology has identified the manufacturing sector as vital to Canada's economic well-being. The report notes the chemistry sector's excellent performance in job creation over the last two decades as well as the potential for expanding this sector as the shale gas revolution reshapes energy markets.<sup>1</sup> With more than 95 per cent of all manufactured products being touched by chemistry, CIAC believes the sector is a vital component to Ontario's and Canada's manufacturing future.

Furthermore, we wish to draw your attention to the Canadian Energy Research Institute's (CERI) October 2016 Competitive Analysis of the Canadian Petrochemical Sector (Attachment 2). 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 and Growth confirm these findings.

### **Regulatory Burden Reductions**

Unnecessary regulatory burdens are a key impediment to competitiveness. CIAC endorses the government's commitment to modernize business regulations to be outcome-focused and evidence-based while continuing to protect the public interest.

CIAC commends the efforts of the Ministry of Economic Development and Growth's (MEDG) for spearheading the Business Growth Initiative. In particular, we wish to highlight the Red Tape Challenge initiative to collect recommendations to streamline and modernize business regulations.

CIAC was very pleased to support MEDG's Red Tape Challenge chemical manufacturing consultation. Held during August and September 2017, the consultation generated nearly 300 comments and 21 private messages concerning 148 regulations. CIAC's submission<sup>2</sup>, which came out of a lengthy pre-consultation engagement with CIAC members and stakeholders within the broader chemical manufacturing sector, highlighted seven areas where duplication exists with other levels of government or unnecessary costs, complexities and time can be eliminated in Ontario's regulatory framework without impacting existing policy outcomes or objectives.

### **Recommendations:**

- 1. Maintain the chemistry sector as a priority sector within the Province's economic development strategy and its eligibility for investment support within the Jobs and Prosperity Fund and other investment attraction initiatives.**

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<sup>1</sup> Standing Committee on Industry, Science and Technology, 2017. "The Canadian Manufacturing Sector: The Urgent Need to Adapt," Parliament of Canada, p. 8

<sup>2</sup> [http://www.canadianchemistry.ca/library/uploads/Red\\_tape\\_challenge\\_submission\\_VF.pdf](http://www.canadianchemistry.ca/library/uploads/Red_tape_challenge_submission_VF.pdf)

2. **Implement CIAC's recommendations provided in the Red Tape Challenge Chemical Manufacturing consultation to streamline and modernize outdated, redundant and unnecessarily costly, complex and time-consuming regulations.**

## ➤ Other Fiscal Considerations

### Corporate Income Tax

Ontario has historically offered a lower combined federal/provincial corporate income tax rate (CIT) for manufacturing and processing of 25% compared to a U.S. federal CIT rate of 35%.<sup>3</sup> However, proposed U.S. tax reforms will drop the U.S. federal CIT rate significantly from 35% to approximately 20% by as early as 2018. Should these tax reforms pass, one of Ontario's historical competitive advantages quickly becomes a competitive disadvantage. It is essential that Ontario work in lock-step with its federal counterparts to ensure that we maintain our current combined federal/provincial CIT advantage.

### Accelerated Capital Cost Allowance

Large chemistry projects take five or more years to complete from concept to the start of production. Having a 10-year temporary Accelerated Capital Cost Allowance (ACCA) in place allows companies to factor its impact into their site-selection process. But, to be very clear, this measure just matches existing permanent treatment in the U.S. and it needs to be made permanent, as a minimum to signal our intent to remain competitive. This has become even more urgent as U.S. additional U.S. tax reform measures being considered will allow for a full 100% depreciation of the cost of the asset in year one and which will be in place for five years.

A study done for CIAC in 2014 showed that depreciation measures (since made permanent) in the U.S. allow on average a faster rate of depreciation and includes a broader selection of capital asset investments covered under depreciation rules.<sup>4</sup> CIAC believes greater efforts by the government on capital investment measures will be needed to encourage value-add resource upgrading and to attract new projects to Canada to directly impact productivity and global competitiveness. One measure to consider is broadening the coverage of the types of capital assets that are available for ACCA to match the criteria in the U.S. for major industrial projects.

CIAC has conducted research which shows that enhanced accelerated capital cost measures do not impact the government revenues over the long-term.<sup>5</sup> The ACCA speeds up the schedule for asset depreciation by de-risking investment capital during the planning and development phases before the investment is operational and generating cash flow for the investor. CIAC's research has shown

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<sup>3</sup> Individual states levy their own corporate income tax rates which range from a high of 12% in Iowa to 0% in Wyoming and South Dakota, the number of states makes it difficult to include a combined Federal/State level CIT comparison that is concise.

<sup>4</sup> Pinto, Odette. 2014. "Capital Allowance Systems for Chemical Corporations: Canada vs. United States," Contracted Research for CIAC. p 7-9

<sup>5</sup> Chemistry Industry Association of Canada, 2016. "Accelerated Capital Cost Allowance Analysis" Chemistry Industry Association of Canada. p. 6

that for a 100 per cent ACCA on a \$2 billion investment (\$1 billion of capital assets meeting Class 43 eligibility) the federal government's break-even date occurs eight years after the initial investment, after which the tax revenue stream is positive.<sup>6</sup> However, this delay in collecting corporate taxes is not a zero-sum calculation. To the extent that the ACCA enhances the likelihood of a positive investment decision in Ontario, early stage forgone tax revenues should be seen through a lens of additionality, whereby without the incentive offered by an ACCA the investment itself is unlikely to proceed, meaning the government will forgo all potential taxes. A new 100 per cent ACCA is a necessary additional measure to provide a deliberate incentive to invest in Canada in resource upgrading and value-add manufacturing. It is our view that this is the least cost option in terms of cost to Ontario and Canadian tax payers.

### Recommendations:

Advocate for and match federal measures to:

- 3. At minimum maintain the historical advantage in the combined federal/provincial CIT rate for manufacturing and processing to address the impact of upcoming U.S. CIT cuts.**
- 4. Make the 10-year extension of the ACCA permanent for manufacturing and processing and broaden the coverage of eligible capital assets to signal Canada is welcoming new investments in value-add resource upgrading.**
- 5. Introduce a 100 per cent ACCA for a minimum of one full business cycle of seven years to specifically apply to upgrading resources into manufactured products.**

## ➤ Environmental Regulation

CIAC and our member-companies recognize the importance of emissions reductions, especially as Canada sets out to be a leader in the low carbon economy. As noted earlier, our members come from a position of integrity and action in reducing emissions and improving environmental performance.

### Climate Change

The chemistry sector is characterised by large, long-life, capital intensive facilities that are purpose built to manufacture products as efficiently as possible. Additional gains in energy efficiency are highly dependent on large capital investments and must be planned over a longer timeframe for operations, maintenance and capital reinvestment planning.

Going into the Post 2020 compliance periods, it is essential that Ontario's climate change policy does not encourage shifting processing activity (value-added resource upgrading) out of the province to higher carbon footprint jurisdictions. As such, Ontario must ensure that the chemistry sector maintains its designation as Energy Intensive Trade-exposed to support competitiveness while encouraging and rewarding top performance. Furthermore, Ontario's climate change policy

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<sup>6</sup> Ibid. p.9

must provide an incentive to grow the chemical sector in Ontario with lowest emission intensity worldwide.

Furthermore, we wish to reinforce the economic impact of the proposed federal climate change regulations on Post 2020 compliance periods. In particular, we draw attention to the impact of the proposed federal low carbon, or clean, fuel standard. As the chemistry sector relies upon fossil fuels (such as natural gas and natural gas liquids) as an important feedstock and energy fuel, this proposed regulation will add to the carbon compliance costs faced by industry.

As the Ministry plans its competitiveness assessment for the Post 2020 compliance periods, we urge that this assessment must factor in the full impact of these additional costs on our sector. Otherwise the assessment will significantly underestimate the potential for carbon leakage for chemical producers in Ontario.

### Local Air Quality

CIAC and its member companies are committed to the protection of human health and the environment and to an effective use of resources. CIAC is convinced, in the spirit of Responsible Care, that it is possible to meet those objectives while continuing to manufacture the products upon which our society depends, to develop new products and solutions to meet public and industry's needs in a sustainable way and to grow economic opportunities for Ontarians.

Our principles speak to competitiveness in the global market, and approach policies in a science and risk-based manner. We support effective policies that allow flexibility in achieving objectives while minimizing administrative burden on industry.

#### Recommendations:

- 6. Ensure that climate change regulation does not impair Ontario's competitiveness relative to other jurisdictions, particularly the United States. We are an export-intensive industry and must be able to compete global markets for market share and investment funding.**
- 7. New air quality regulations and regulatory amendments protect human health and the environment while ensuring there is no negative impacts to competitiveness, investment attraction and cluster development, and cause greater complexity, uncertainty and delays in approvals processing.**

## ➤ 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. There is an urgent need for action in the Provincial Budget 2018 in concert with the federal government to ensure Ontario does not miss out

on these opportunities in the future. It will take bold measures to win new investments – but these investments will in turn provide long-term profitable growth for Ontario and Canada that runs counter-cyclic to our resource-based sectors.

## ➤ Summary of CIAC Recommendations:

1. **Maintain the chemistry sector as a priority sector within the Province’s economic development strategy and its eligibility for investment support within the Jobs and Prosperity Fund and other investment attraction initiatives.**
2. **Implement CIAC’s recommendations provided in the Red Tape Challenge Chemical Manufacturing consultation to streamline and modernize outdated, redundant and unnecessarily costly, complex and time-consuming regulations.**
3. **At minimum maintain the historical advantage in the combined federal/provincial CIT rate for manufacturing and processing to address the impact of upcoming U.S. CIT cuts.**
4. **Make the 10-year extension of the ACCA permanent for manufacturing and processing and broaden the coverage of eligible capital assets to signal Canada is welcoming new investments in value-add resource upgrading.**
5. **Introduce a 100 per cent ACCA for a minimum of one full business cycle of seven years to specifically apply to upgrading resources into manufactured products.**
6. **Ensure that climate change regulation does not impair Ontario’s competitiveness relative to other jurisdictions, particularly the United States. We are an export-intensive industry and must be able to compete global markets for market share and investment funding.**
7. **New air quality regulations and regulatory amendments protect human health and the environment while ensuring there is no negative impacts to competitiveness, investment attraction and cluster development, and cause greater complexity, uncertainty and delays in approvals processing.**



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**Responsible Care<sup>®</sup>**  
Our commitment to sustainability.

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