Chemistry Industry 2022

Federal Pre-Budget Consultation

Submission to:
The Standing Committee on
Finance and Economic Affairs
August 2022

CHEMISTRY INDUSTRY ASSOCIATION OF CANADA

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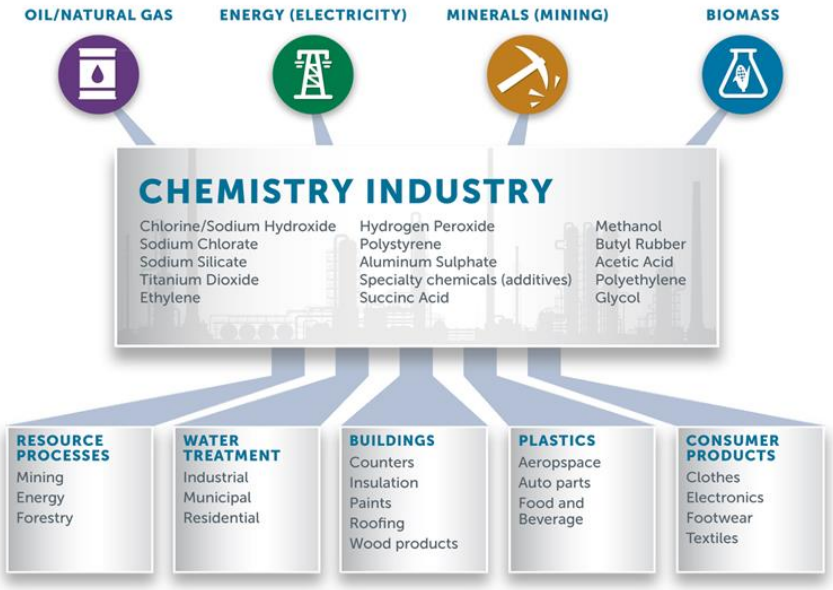
Recommendations:

1. **Extend the Accelerated Capital Cost Program with no phase-out to 2030 and consider making it permanent to build back better from the COVID-19 Pandemic.**
2. **Reform the Scientific Research and Experimental Development Program (SR&ED) to help foster R&D in Canada by:**
   - **raising the investment tax credit to 20% from the current 15%;**
   - **eliminating or substantially raising the upper limit for taxable capital phase-out range from the current $50 million;**
   - **reinstating capital expenditure eligibility that was phased out beginning January 1, 2013; and**
   - **eliminating the 20% disallowance on arm's-length consulting payments.**
3. **Work with industry to establish the Circular Plastics Innovation Fund to accelerate technology and innovation for plastics circularity to help Canada reach its net-zero by 2050 targets.**
4. **Certainty and predictability in carbon policy and revenue recycling will underpin chemistry and plastic sector investments to help our industry and others achieve their net zero ambitions**

Chemistry is Essential to Canada's Economic Recovery

In April 2020, the global economy shutdown and governments around the world closed their borders to address the COVID-19 pandemic. As economies have re-opened, demand for physical goods, digital goods and for services has come roaring back, often much stronger than anyone expected. COVID-19 exposed gaps in supply chains, as countries began to look out for their own citizens it became obvious that domestic manufacturing capacity is critical in times of distress and uncertainty. Canada's chemistry sector has been at the forefront of these trends. Chemistry products are the building blocks of the modern economy. 95 percent of all manufactured goods – from appliances, to automobiles, to safe and sanitary plastic food packaging and hand sanitizer, chemistry makes our lives better and safer. As we build back better from the COVID-19 pandemic Canadians will need chemistry. We will need chemistry to meet our climate change goals, we will need chemistry to achieve a Net Zero future and we will need chemistry to build a circular economy that ensures materials stay in the economy and out of landfills. Ensuring that Canada can attract the investments that build the post-COVID economy should be top of mind in Budget 2022.



A. Building and Maintaining a Competitive Chemistry Sector

The COVID-19 pandemic created an extraordinary amount of uncertainty for businesses and severely disrupted the normal investment cycle. As economies have re-opened it has become clear that we will need to build back better to make our economy more resilient, more competitive, and more innovative to face the challenges of the future. At the same time governments around the world have committed to address the challenge presented by climate change and working towards a Net-Zero emissions future. The products of chemistry are crucial

to meeting these goals. We believe that climate change policy and investment policy need to work together to ensure that we can produce new and innovative materials that the world will demand. A top priority of budget 2022 needs to be ensuring that Canada can attract world class investments to strengthen the chemistry sector. This will require broad based policies and targeted measures both of which are required in today's competitive business environment.

Over the last few years, the CIAC has worked diligently to highlight the investment potential that exists in the chemistry sector. Ontario and Alberta recognized this potential, and both helped secure global scale investments, with Alberta recently re-committing to the chemistry sector through the Alberta Petrochemicals Incentive Program. The federal government has also invested, Budget 2021 recommitted to the Strategic Innovation Fund and critically reinvested in the National Trade Corridors. Budget 2022 should build on these programs through a mixture of broad-based investment competitiveness measures and strategically focused policy that will encourage innovation in the chemistry sector.

In 2018, the federal government introduced the 100 percent 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. Due to the disruptions to investment and construction cycles caused by the COVID-19 pandemic it is critical that the government extend the 100 percent ACCA and provide long-term certainty for business investment as they consider investments in Canada's economy. Extending the ACCA will ensure that Canada's manufacturing sector is able to make critical investments that strength domestic supply chains.

Recommendations:

1. **Extend the Accelerated Capital Cost Program with no phase-out to 2030 and consider making it permanent to build back better from the COVID-19 Pandemic.**

B. Developing a World Class Ecosystem for Chemistry Research, Development and Innovation

The chemistry sector is one of the most research-intensive sectors in the global economy. Chemistry consistently ranks as the world's 2nd most patented sector after Information Technology and, in Canada, it employs the second highest rate of university graduates behind electronic and computer manufacturing. However, Canada is lagging other jurisdictions in attracting private chemistry Research and Development (R&D) mandates. Budget 2021 began addressing these shortcomings by investing a further $2.2 billion in the Strategic Innovation Fund (SIF), creating the $5 billion Net Zero Technology Acceleration Fund within the SIF program and pledging an investment tax credit for Carbon Capture Utilization and Storage (CCUS). However, there is a need to reform the basic research and development architecture in Canada and Budget 2022 can help address longstanding concerns and re-invigorate Canada's economy.

Reforming the Federal Scientific Research and Experimental Development (SR&ED) Tax Incentive

The Federal SR&ED tax incentive is the government of Canada's largest and most widely available tax credit program that fosters research and development. CIAC believes that changes to the SR&ED program are required to ensure that Canada re-establishes itself as a destination for global research mandates. As it stands today, the SR&ED program is difficult to access and onerous to companies, with the CRA performing the dual role of judging and auditing SR&ED compliance. This dual role leads to a large amount of uncertainty for companies as they await the outcome of CRA processes after making these expenditures. SR&ED has also seen its eligibility criteria tightened since the early 2000s while seeing the investment tax credit itself decrease from 20% to 15%. Reforming some of these aspects will help re-invigorate private sector research and development in Canada.

Recommendations:

2. **Reform the SR&ED program to help foster R&D in Canada by:**
    a. **raising the investment tax credit to 20% from the current 15%;**
    b. **eliminating or substantially raising the upper limit for taxable capital phase out range from the current $50 million;**
    c. **reinstating capital expenditure eligibility that was phased out beginning January 1, 2013; and**
    d. **eliminating the 20% disallowance on arm's-length consulting payments.**

Establishing the Circular Plastics Innovation Fund (CPIF)

Chemistry and plastics enable our modern and sustainable way of life and are key to developing a prosperous economy for Canada. With the global population projected to grow 28% by 2050, the demand for plastics will increase. It is crucial to develop a circular economy for plastics so we can responsibly embrace the benefits of plastics, while ensuring plastics never enter the environment.

Today in Canada, due to inadequate sorting, contamination, limited end markets and not employing all the technologies available, 86% of all post-consumer plastics end up in landfills—three million tonnes annually. Traditionally, a variety of recycling challenges have resulted in poor recycling rates across the country (e.g. technical challenges, lack of infrastructure, poor consumer behaviour, limited end-markets). By treating post-consumer plastic as a waste rather than a resource, the lost opportunity cost of plastic not being recovered is $7.8 billion per year and is expected to grow to $11.1 billion per year by 2030. Achieving a circular economy for plastics will require collaboration among governments, businesses, academics and scientists to develop solutions that will enhance recycling systems, support innovation and expand end-markets for plastics.

Circular economy strategies for Canada's plastics and chemistry sectors would also deliver significant GHG emissions savings and help Canada realize its policy objectives for net-zero by 2050. As advanced manufacturing sectors, chemistry and plastics are foundational inputs to

other sectors (e.g. buildings, aerospace, automotive, food and beverage) with their ability to innovate and deliver low carbon solutions to downstream customers.

CIAC recommends that the Federal government establish the Circular Plastics Innovation Fund (CPIF), a new pan-Canadian industry-led consortium focused on advanced manufacturing solutions in the chemistry and plastics value chain in support of a circular economy. The CPIF would develop a national ecosystem of SMEs, companies, governments, industry investors, and research institutions to align stakeholders and partners and commercialize and scale circular economy innovations. Priority areas for private-public investment in innovative solutions would include:

1) Industrial Decarbonization Technologies- Canada can decarbonize its chemistry and plastics sectors through new industrial innovations that will position Canada as a leading low-carbon resin and recycled plastics producer and provide Canada with an unbeatable competitive advantage on the global stage.

2) Recycling Infrastructure – Modernizing Canada's sortation and recycling infrastructure would create national resiliency for a high-demand resource and significant GHG emissions reductions for plastics recycling. Investment in technology and infrastructure could create economies of scale in distinct recycling hubs in Ontario, Alberta, Québec, and British Columbia.

3) Technology Acceleration for Advanced Recycling. Scale-up and commercialization of advanced recycling technologies, which offer significant environmental benefits, is critical to achieve zero plastic waste and continuously re-circulate plastics in the economy.

The development of sustainable solutions within the chemistry/plastics value chain and across market segments and sectors would help Canada meet its net-zero by 2050 targets. The result would be to create a low carbon advantage for all manufacturing sectors across Canada that use and sell plastic products nationally and internationally.

Recommendations:

3. **Work with industry to establish the Circular Plastics Innovation Fund (CPIF) to accelerate technology and innovation for plastics circularity to help Canada reach its net-zero by 2050 targets.**

C. Support the Chemistry and Plastics sector in their transition to a net zero economy

Recently, Parliament passed the *Net Zero Accountability Act* which legally mandates Canada's progress towards net zero emissions by 2050. While it is necessary for government to set parameters, it is up to industry to make the investments needed to meet our goals. Canada's chemistry and plastics sector will strive to meet these goals and our sector is critical to ensuring Canada's economy, is able to meet these goals.

The pathways to net zero can and will take many forms – deploying the newest, lowest emissions technologies is one option. In an alternative scenario, closing facilities, ceasing emissions, and importing the needed chemistry and plastics is another pathway. Indeed, Canada already leads the world in low-carbon chemistry and plastics production with further opportunities for emissions reductions. With the right policies and consistent signals, Canada can continue to be a leader in low carbon industrial manufacturing providing low emissions products to Canadians and for consumers in global markets.

With Budget 2022 we recommend that the government focusses on consistent long-term policies. COVID-19 showed us just how fragile global supply chains are when disaster strikes, we encourage Parliament to focus on maintaining and growing our manufacturing prowess while striving to meet climate change goals. Political fighting and rapidly changing climate policy goals risks punishing manufacturers for recent investments made in good faith. Policy actions should be avoided that strand previous investments in emissions reductions that generate capital, credits, or offsets. Moving forward, facilities with an obligation under the OBPS, or provincial equivalent system, should have access to a portion of their compliance payments on a time-limited and minimum emission reduction threshold basis to reinvest to achieve actual emission reductions. Recycling a portion of compliance revenues within the manufacturing sector, will ensure Canada sees the newest technologies deployed.

Recommendations:

4. **Certainty and predictability in carbon policy and revenue recycling will underpin chemistry and plastic sector investments to help our industry and others achieve their net zero ambitions.**

CHEMISTRY INDUSTRY
ASSOCIATION OF CANADA

1240 - 45 O'Connor Street, Ottawa, ON K1P 1A4 |

613-237-6215 canadianchemistry.ca | @ChemistryCanada

info@canadianchemistry.ca

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