



CHEMISTRY INDUSTRY
ASSOCIATION OF CANADA

Chemistry Industry

2022 Ontario Budget Consultation



SUBMISSION TO
Hon. Peter Bethlenfalvy
Minister of Finance

Recommendations:

- 1. Develop an Ontario Chemistry Renewal and Transformation Action Plan capable of attracting the necessary investments to facilitate Ontario chemistry sector's transformation to a circular and net-carbon zero economy**
- 2. Continue to build on successes of Ontario's Red Tape Reduction**
- 3. Advocate for Ontario business interests with the federal government**
 - a. Accelerated capital cost allowance**
 - b. Carbon capture utilization and storage tax credit**
- 4. 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.

› **Recommendation: Develop an Ontario Chemistry Renewal and Transformation Action Plan capable of attracting the necessary investments to facilitate Ontario chemistry sector's transformation to a circular and net-carbon zero economy**

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 derivatives complex (investment amount estimated to be \$multi-billions) in Fort Saskatchewan.

- Inter Pipeline Limited's \$4.5 billion polypropylene production facility Heartland Petrochemical Complex
- Nautical 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 establish an Action Plan similar to 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 transportation, mining, forestry and agri-food.

Invest Ontario

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 implement a risk-free tax credit approach that does not require the government to disburse funds directly to companies.

› **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 endorse the government's Open for Business Action Plan and the Red Tape Reduction measures such as the Supporting People and Business Fall 2021 package.

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.

Continued efforts in red tape reduction are needed. These include:

Reduce Environmental Compliance Approval Processing Time Ongoing:

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.

Local Air Quality Standard Regulations

The current methodology for setting Local Air Quality standards requires a structural reset. The current regulation is reliant on modelled data. It is important to recognize that models are not definitive but rather mathematical representations and subjective. CIAC is seeking opportunities to work with MECP to review their meteorological model data treatment and run statistical validations to determine its overall statistical accuracy.

› **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 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.

Carbon Capture Utilization and Storage Tax Credit

The federal government began consultations in the summer of 2021 on an investment tax credit for carbon capture storage and utilization (CCUS) as a way to reduce emissions from industrial sources. More recently in the 2021 Fall Economic updates, Finance Minister Freeland said that the federal CCUS Investment Tax Credit (ITC) will be released in the 2022 federal budget.

CCUS will play an important role in lowering emissions from chemicals manufacturing. Indeed, the International Energy Agency has estimated that nearly 38 per cent of CO₂ emissions in the chemistry sector could be captured with a wide deployment of CCUS.¹

An effective CCUS Investment Tax Credit (ITC) must respect and account for carbon capture equipment, transportation, and storage infrastructure, and should include investments that utilize captured carbon in new processes. A tax credit of this breadth will enhance the business case for retrofitting existing facilities, designing and building new facilities with CCUS and for building a new economy that uses captured carbon as a feedstock.

It is important that the government of Ontario develop the regulatory framework required to see the deployment of CCUS and match the federal CCUS ITC when it is released later this year. We are encouraged with the recent discussion paper Ontario has released to develop a comprehensive CCUS regulatory framework and we look forward to consulting with the government in its development.

Border Carbon Adjustments

The federal government has announced its intention to explore a Border Carbon Adjustment (BCA) framework. A BCA aims to ensure that all goods traded between countries are subject to an equivalent level of carbon pricing. Other jurisdictions led by the European Union have begun to establish BCA regulations.

It is important that Ontario engage with the federal government to ensure that a BCA policy supports the interest of Ontario industry. BCAs by design will interact with provincial carbon pricing frameworks and it is critical that all levels of government have a seat at the table as Canada examines their applicability. Any BCA needs to ensure that Energy Intensive Trade Exposed (EITE) industries remain competitive and the potential impacts to complex supply chains, particularly with the United States, need to be studied extensively. We look forward to working with Ontario over the coming months as the federal government consults more broadly about BCAs.

› 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 a number of 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 announcing plans to release a policy paper for consultation to help identify opportunities to better support the use of innovative technologies and processes to recover the value of waste. 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.

¹ International Energy Agency, "[Transforming Industry Through CCUS](#)," May 2019

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, in particular, has a unique opportunity given its large population size and the expansion of its Blue Box program providing the critical supply of feedstock for 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.

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 per cent of all manufactured products rely on chemistry. Ontario's chemistry and plastics sectors produce 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 and plastics sectors have 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

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 \$26-billion chemistry industry is the third largest manufacturing industry in the province, directly employing over 42,000 Ontarians in well-paying jobs and supporting another 210,000 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 \$14 billion plastics manufacturing sector is the largest in Canada, directly employing 46,000 jobs and providing nearly \$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.



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