Chemistry Industry 2023

Federal Pre-Budget Submission Brief

Submission to:
The Standing Committee
on Finance
October 2022

CHEMISTRY INDUSTRY ASSOCIATION OF CANADA

Responsible Care®
Our commitment to sustainability.

#chemistrysolutions

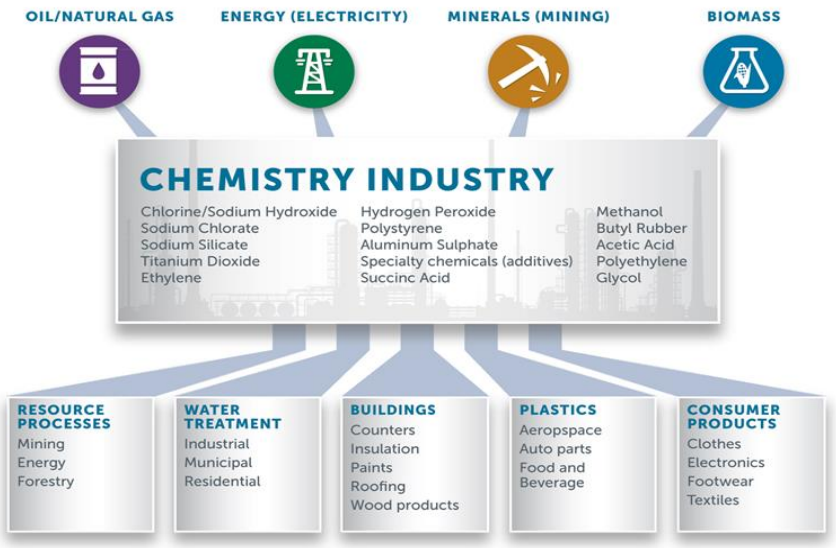
Recommendations:

1. **Extend the Accelerated Capital Cost Allowance Program until at least 2040 with no phase-out or wind down until to 2030.**
2. **Evaluate the impact of the Inflation Reduction Act on Canada's investment competitiveness and its use of multi-decade investment timelines.**
3. **Ensure future investment attraction programs are long-lived and are available to investors for at least 10 years once operating.**
4. **Ensure the Clean Technology Investment Tax Credit is broad based and technology neutral.**
   - **The ITC should be sector neutral and available to all proponents.**
   - **The ITC should include investments that result in emissions reductions regardless of technology deployed or end-product.**
5. **Undertake the review of the SR&ED program promised in Budget 2022 to make it more fit-for-purpose and broadly accessible.**
6. **Consider a suite of innovation policies that address the complex barriers to entry for innovation in the chemistry and plastic sectors.**
   - **Consider using production-based incentives, in the form of tax credits or direct payments to incentivize new technology deployment and decarbonization initiatives.**
   - **Consider the development of patent-box approaches for newly deployed technologies to lower the operating cost of new processes.**

Low Carbon Chemistry Essential to Canada's Economic Future

Canada's chemistry and plastics sectors are at the forefront of rapid changes in the world economy. The world is embarking upon an ambitious transformation to reduce greenhouse gas emissions entering the atmosphere with interim goals set for 2030 and then net-zero goals to 2050. Canada's *Net Zero Accountability Act* passed in 2021, legally mandates our progress towards net zero emissions by 2050. At the same time geopolitical tensions are upending decades old energy, commodity, and trade flows. Energy security and security of supply chains have become top of mind as government's assess their economic policies after COVID-19 and in the face of war in Europe. These forces are compounding protectionist inclinations that have been building for years pre the COVID-19 pandemic that began in 2020. At the same time global inflationary forces and central bank policy are injecting large amounts of uncertainty into the global economy. As we grapple with these challenges and attempt to reach net-zero we must remember that there is no tried and tested pathway. Navigating the transition 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.

As we face these challenges, Canada in many ways is already a leader and can be a go to destination for global scale investments in low-carbon chemistry and plastics. Canada has abundant and low-cost natural resources regionally dispersed across the country. We have free trade agreements in place with over 85% of the world's economy. We have extensive transportation infrastructure, providing access to global markets for the products we produce today and into the future. Indeed, Canada already leads the world in low-carbon chemistry and plastics production with further opportunities for emissions reductions. With the right policies in place 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. Growing Canada's chemistry sector while decreasing emissions will ensure the world is able to benefit from our technological innovation and our commitment to creating low-carbon products that benefit countless downstream sectors and consumers. As the graphic below shows, Canada's low-carbon chemistry solutions will be vital to transitioning to a low-carbon economy.



A. A Long-Term Focus for Attracting Investment

To capitalize on our strengths the government needs to develop a long-term set of policies for investment attraction. The policy timeline should acknowledge that Canada's de-carbonization goals are long-term, requiring new technologies, new equipment, and billions of dollars of spent over decades. Only the private sector has the capital and knowledge to makes these investments a reality. Investment attraction policies should look to unlock and entice private sector capital by being transparent and predictable. Decarbonization funding and incentive programs should be available to proponents if they meet clear, pre-determined criteria. Policies, incentives, and programming will need to be broad-based and long-lived to ensure that our multi-decade goals can be met with multi-decade investments.

On average it takes between 5-7 years for a project proponent to move a major investment from idea to operation. Before production begins billions of dollars can be spent on design, testing, logistics, site preparation, materials, and construction labour all before operation begins. On average 75% of that spending is for Canadian goods and services and 50% of total spending occurs within 100km of the work site. Two things are apparent. First, every time a chemistry investment is made, thousands of Canadians are employed to help turn that idea into a reality. When investment planning requires new technologies or processes, as many low-carbon investments do, these timelines and spending costs increase. Second, once a chemistry investment is operational it will operate almost continuously for decades. Investment attraction programs need to recognize the timelines, multi-stage processes and complexities a chemistry investment entails. Policies should work together to provide certainty for investors over the entire development and operations of a project.

A positive example of a long-lived incentive is the proposed Carbon Capture Utilization and Storage Investment Tax Credit (CCUS ITC). 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. Similarly, Canada's commitment to carbon pricing shows a long-term focus. Recently, the United States took a long-term focus with the Inflation Reduction Act (IRA), which provides emissions reduction and low carbon incentives into the 2030's. It is important that existing and future investment attraction policies have a similar long-term focus, and we strongly recommend that the federal government evaluate the impact of the IRA on competitiveness of future similar investments in Canada.

In 2018, the federal government introduced the 100% 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. These timelines do not align with recent investment attraction programs, nor do they acknowledge the scale and breadth of investment required to meet our low-carbon goals. Extending the ACCA is a straightforward and transparent way to ensure that billions of dollars worth of investment and tens of thousands of jobs are created.

Recommendations:

1. **Extend the Accelerated Capital Cost Allowance Program until at least 2040 with no phase-out or wind down until to 2030.**
2. **Evaluate the impact of the Inflation Reduction Act on Canada's investment competitiveness and its use of multi-decade investment timelines.**
3. **Ensure future investment attraction programs are long-lived and are available to investors for at least 10 years once operating.**

B. Ensuring Broad-Based Support for Low-Carbon Investments

A critical feature of the investment policies discussed above is that in addition to being long-lived they are also very broad based. Indeed, federal budgets in 2017 and the Fall Economic Statement of 2018 introduced several technology neutral investment attraction programs. The proposed CCUS ITC will allow emitters of all sizes and most emissions profiles to participate and claim the credit. Investment attraction programs must retain this broad base to fulfill their goals. Canada's goals of reducing emissions and transitioning to low-carbon investment incentives should be technology neutral by default. Investments that can be shown to reduce emissions, and investment which result in lower-carbon processes and end products should be eligible for investment incentives.

In Budget 2022 the government signaled that it would develop a new investment tax credit for up to 30% of investment in clean technologies including: net zero technologies, battery storage solutions and clean hydrogen. This incentive should not place strict limitations on the technologies available. There are many pathways to net zero. Emissions reductions in industrial sectors occur over time as capital investments are made. The Clean Technology investment tax credit should reflect the multitude of pathways to a low-carbon future and include investments that lower emissions over time.

Recommendations:

4. **Ensure the Clean Technology Investment Tax Credit is broad-based and technology neutral.**
    - **The ITC should be sector neutral and available to all proponents.**
    - **The ITC should include investments that result in emissions reductions regardless of technology deployed or end-product.**

C. Support Innovation in the Chemistry and Plastics Sectors with Strong Policy Frameworks

The chemistry sector is one of the most research-intensive sectors in the global economy. Chemistry consistently ranks as the world's second 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 2022 committed to a review of the Federal Scientific Research and Experimental Development (SR&ED) tax Incentive program. We strongly support this initiative. As it stands today, the SR&ED program is difficult to access and onerous to companies. 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.

A review of SR&ED should not be prescriptive and should not look to keep the status quo in place. Innovation is not a static process occurring only in a lab. Innovation occurs across the supply and process chain and can occur in many different forms. If there are ways to fundamentally reform SR&ED, expand the program and make it more effective while keeping to the goal of attracting R&D mandates to Canada the government should consider these options.

Recommendations:

5. **Undertake the review of the SR&ED program promised in Budget 2022 to make it more fit-for-purpose and broadly accessible.**

Being open-minded on innovation policy will be critical to the decarbonization success of Canada's chemistry and plastics sectors. Barriers to entry can be high for new products or processes that differ from long-established practices. Producer-customer relationships are long-standing and product requirements are often finely prescribed. Quality is as important as quantity in ensuring producers are meeting the requirements of downstream customers. Additionally, economies of scale are critical to commoditized sectors such as chemistry and plastics. New technologies or processes must be scalable and dependable upon implementation. These are just some of the ways investors can face uncertainty when trying to innovate. Not knowing if their processes will be scalable, wondering if you can source adequate and consistent feedstocks and enticing end markets to accept new products are common challenges faced in the chemistry and plastics sectors. Government policies should recognize these barriers and consider new and novel approaches to overcoming them. Moreover, government policies should be focused to support and incentivize infrastructure development, particularly as it relates to de-risking investment for recycling infrastructure in Canada. Recent investment incentive programs in the United States IRA have leaned heavily on production incentives, in the form of tax credits and direct payments, to jump start investments in low carbon pathways for CO_2 usage and hydrogen production. Production incentives, commonly used in the IRA, could be useful in Canada, for incentivizing investment in new processes, clean technology, and de-carbonization technologies. Other jurisdictions have considered adopting patent box approaches to commercialize new technologies. In these programs income generated by newly installed technologies or processes can qualify for a lower level of taxation. Each of these proposals helps de-risk an innovation investment in highly competitive sectors.

Recommendations:

6. **Consider a suite of innovation policies that address the complex barriers to entry for innovation in the chemistry and plastic sectors.**
    - **Consider using production-based incentives, in the form of tax credits or direct payments to incentivize new technology deployment and decarbonization initiatives.**
    - **Consider the development of patent-box approaches for newly deployed technologies to lower the operating cost of new processes.**

CHEMISTRY INDUSTRY
ASSOCIATION OF CANADA

1240 - 45 O'Connor Street, Ottawa, ON K1P 1A4 |
613-237-6215 canadianchemistry.ca | @ChemistryCanada
info@canadianchemistry.ca

Responsible Care®
Our commitment to sustainability.