



CHEMISTRY INDUSTRY
ASSOCIATION OF CANADA

Chemistry Industry

2024 Ontario Pre-Budget Consultation



SUBMISSION TO
Hon. Peter Bethlenfalvy
Minister of Finance

Recommendations:

- 1. Develop an Ontario Action Plan to attract transformative investments in the Chemistry and Plastic Sectors.**
- 2. Enable Invest Ontario to attract investment.**
- 3. Continue to build on successes of Ontario's Red Tape Reduction**
 - a. Reduce Environmental Compliance Approval Processing Time**
 - b. Implement a Commercial-scale Carbon Capture, Utilization and Storage regulatory framework**
- 4. Advocate for Ontario business interests with the federal government**
 - a. Accelerated capital cost allowance**
 - b. Carbon capture utilization and storage tax credit**
 - c. Clean Hydrogen Investment Tax Credit**
- 5. 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 2024 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 province 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 IS CRITICAL TO ONTARIO'S ECONOMY

Ontario's \$30 billion chemical manufacturing industry is a significant contributor to our country's economy. The sector is directly responsible for 45,000 jobs and pays approximately \$3.32 billion in salary and wages. The industry supports an additional 224,000 jobs in the overall economy across the province.

- In 2022, industry shipments were \$29.8 billion (\$12.1 billion in industrial chemicals) and \$19.2 billion in plastic products.
- 4th in value of shipments behind Transportation Equipment, Food, and Petroleum and Coal Products
- 3rd in value-added manufacturing output behind Food and Transportation Equipment.

More than 95 per cent of all manufactured products rely on chemistry and there is a growing global demand for chemicals and plastic resins with the lowest carbon production available.

Chemistry and plastics help all Canadians reduce emissions in key sectors:

- green buildings including innovative insulation to prevent heat and cooling loss in homes
- sustainable transportation by making vehicles lighter; powering batteries in electric vehicles
- clean energy such as solar and wind turbines
- sustainable agriculture
- lightweight food packaging that prevents spoilage

› Recommendation: Develop an Ontario Action Plan to attract transformative investments in the Chemistry and Plastic Sectors.

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 continues to be a fly-over destination.

The chemistry sector is in the midst 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.

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 \$10+ billions) in Fort Saskatchewan.
- Inter Pipeline Limited's \$4.5 billion polypropylene production facility Heartland Petrochemical Complex
- 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:

- BASF Canada selected Becancour as the site of its cathode active materials facility.
- 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 develop an Action Plan like 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 fourth-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 automotive, mining, forestry and agri-food.

› **Recommendation:** Enable Invest Ontario to attract investment

We support the announcement in the 2023 Fall Economic Statement to add \$100 million in funding to Invest Ontario. We note that large capital-intensive investments such as each of the recent EV Battery

and automotive assembly projects received provincial incentives far above the proposed increase in Invest Ontario investment funding.

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 consider utilizing the apolitical tax code to incent private sector investment without the need to disburse funds directly to companies.

Initiatives for Ontario Government

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 like the [Alberta Petrochemical Investment Program](#) (APIP) and the Quebec's C3i program to support the acquisition of manufacturing and processing equipment. The APIP program provides certainty based on a grant funding level of 12% on published eligible defined criteria once a project achieves commercial operations. The recently announced expansion of the Quebec C3i program, which takes effect January 1, 2024, will permit all Quebec businesses to take advantage of a refundable tax credit on defined capital equipment expenditures up to \$100 million over four years. Additionally, the program provides a tiered tax credit approach of 15% for investments in the Montreal and Quebec City regions, 25% for investments in territories with low economic vitality and 20% for investments made in other regions of Quebec. The Quebec C3i initiative is in addition to its additional Capital Cost Allowance (CCA) of 30% for investments in respect of computer hardware, manufacturing and process equipment, clean energy generation equipment and intellectual property.

Furthermore, a competitive framework should be guided by the following principals:

- **Certainty and predictability in carbon policy and revenue recycling** will underpin chemistry and plastic sector investments to help our industry and others (including the federal government) achieve society's net zero ambitions.
- Certainty and predictability are eroded with layering of multiple policies and priorities on Carbon Pricing (Clean Fuels Regulation, Clean Electricity Regulations, Oil & Gas Emissions Cap)
- Policy actions should **avoid stranding previous investments** in emissions reductions that generate capital, credits, or offsets.
- Ensure future **investment attraction programs are long-lived** and are available to investors for at least 10 years once operating.
- Utilize Ontario's tax code to **increase transparency, program access and uptake by private sector capital**.
 - Newley developed investment incentives should be technology agnostic as long as these investments reduce emissions or result in emissions reductions above prevailing industry rates.
 - Tax measures should be outcome based with clear eligibility criteria providing predictability and certainty.

- **Application review behind closed doors erodes predictability and certainty.** Eligibility criteria and technical guidelines should be established upfront and there should be limited or no review processes upfront to confirm eligibility.

› **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 support the government's Advanced Manufacturing Council initiative that engaged CIAC and other industry, labour and academic groups in consultation to develop an action plan to address opportunities to build up the broader manufacturing sector. We also heartily endorse the province's most recent red tape reduction action that removed the restriction on the geologic storage of carbon in the Oil, Gas and Salt Resources Act.

We also recognize the Ministry of Environment, Conservation and Parks' (MECP) recent initiatives including recognizing carbon capture and storage in the Emissions Performance Standard, the full recycling of proceeds of industrial emissions back to emitters to invest in emission reduction initiatives as well as the successful implementation of the electronic hazardous waste program.

Opportunities exist to continue to modernize and eliminate unnecessary burdens that create impediments to achieving current policy objectives. Continued efforts in red tape reduction are needed. These include:

- **Reduce Environmental Compliance Approval Processing Time:**
 - 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.
- **Implement a Commercial-scale Carbon Capture, Utilization and Storage regulatory framework**
 - As noted, the recent announced plan to allow piloting and testing of innovative technologies for carbon storage on private lands and expectations that a regulatory framework will be released in 2025 including enable commercial-scale

carbon storage on both private and Crown lands is welcomed news. We emphasize that Ontario should not re-create the wheel but replicate existing regulations and frameworks implemented in other provinces like Alberta and British Columbia. This includes the rules governing pore space ownership.

Furthermore, Ontario will need to build upon this base to focus on transforming CO₂ from a waste into valuable products. This takes what is currently being proposed as Carbon Capture and Storage (CCS) and to become a comprehensive Carbon Capture Utilization and Storage (CCUS) solution.

› **Recommendation:** Advocate for Ontario business interests with the federal government

CIAC sees Ontario's voice as a valuable asset in gaining the attention of the federal government. We seek the province's assistance to advocate on behalf of the Ontario chemistry and plastics sector for the following initiatives.

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) until at least 2040 to align with recent federal ITCs. Canada needs to compete aggressively for low emissions chemistry investment and extending the ACCA is a broad based and transparent measure that helps de-risk highly capital-intensive investments. Consideration should be given to making the allowance permanent to provide long-term certainty to capital intensive investors and to take advantage of near shoring trends. As noted earlier, Ontario must also follow Quebec's lead with its additional 30% CCA treatment.

Carbon Capture Utilization and Storage Tax Credit

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. Ontario should closely monitor the development of the federal CCUS ITC. Once Ontario's regulatory framework for CCUS is in place later in 2023, policymakers should consider adopting the federal ITC for provincial taxation and could even strengthen the incentive to spur CCUS investment.

Clean Hydrogen Investment Tax Credit

The federal government has recently released draft legislation for the Clean H₂ investment tax credit and is aiming to introduce full legislation with Budget 2024. Ontario should review the draft legislation and consider a matching program that could incent the hydrogen sector in the province. Ontario must also ensure that the proposed Clean H₂ ITC works with provincial tax credit programs and that it does not impinge on other proponent funding mechanisms including grants, other investment credits, emissions trading and credit generating programs and accelerated depreciation measures. We believe recent proposals do respect provincial financial mechanisms but Ontario must ensure this is the case.

Canada Infrastructure Bank and Canada Growth Fund

Many Canadian companies are leading the way on research into advanced recycling. These new technologies transform plastic products back into their basic molecules, allowing the production of new resins, pellets, and plastic products that will continuously recirculate in the economy.

Investing in plastics recycling infrastructure and technology will increase the availability and use of recycled plastics in products. Given recycled plastic resins have a lower environmental footprint than virgin resins, it will also increase the availability of made-in-Canada low-carbon products, providing an important trade advantage. To truly move the needle to achieve recycling and diversion targets,

Sortation facilities play a critical role in the value chain to provide reliable and consistent supply of better quality feedstocks. De-risking investments in advanced recycling through various financial tools from the Canada Growth Fund and focused investments through the Canada Infrastructure Bank will play an integral role to improve technology implementation and scaling-up at the front end of the process so that hard-to-recycle plastics can be effectively recycled.

› **Recommendation: Establish Ontario as a regional leader in the circular economy**

Ontario has the scale in the chemicals sector to deliver recycled plastics 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 modernised sortation and mechanical recycling operations and new advanced recycling technologies for adoption throughout North America and the world. Ontario risks falling behind several U.S. states that have already recognized advanced recycling technologies to accelerate their transition to a more circular economy.

The following actions are needed to enable Ontario to become a leader in the circular economy for plastics and increase diversion of post-consumer plastics (PCP) and pre-industrial plastics (PIP) from landfill:

Recognize sorted post-consumer plastics (PCP) and pre-industrial plastics (PIP) as a resource

Presently, all PCP and PIP are classified as a waste in O. Regulation 347. Any facility that wishes to receive the PCP/PIP would be regarded as a waste disposal facility and would require a Waste Environmental Compliance Approval. However, sorted PCP and PIP processed by an advanced recycling facility is similar in nature to any other manufacturing process that receives a feedstock to produce a value-added product. As such, sorted PCP and PIP, for the purpose of being processed at an advanced recycling facility, should not be classified as a waste.

Recognize advanced recycling and advanced recovery

We commend the government for implementing a streamlined environmental assessment process for advanced recycling facilities. To truly realize the potential in the circular economy for plastics, Ontario must include both advanced recovery and advanced recycling of sorted PCP plastics into the Extended

Producer Responsibility diversion calculation. Advanced recycling 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.

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 has a unique opportunity to be a leader in plastic recycling. Our large population and the roll-out of its standardized Blue Box program will provide a stable supply of feedstock, a necessity to scale up recycling. Ontario could soon be positioned as a regional recycling hub that can capitalise on access to sorted PCP and PIP from the Eastern Canada and the U.S. Great Lakes States. This will lead to significant market expansion, capital investment, job creation that drive greater market efficiencies, scale, and feedstock supply for innovative mechanical and advanced recycling technologies.

CIAC is advocating for the establishment of a public-private partnership through a Circular Plastics Innovation and Infrastructure Fund and a 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 and Infrastructure 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.

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 \$30-billion chemistry industry is the third largest manufacturing industry in the province, directly employing over 38,000 Ontarians in well-paying jobs and supporting another 190,000 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 \$18 billion plastics manufacturing sector is the largest in Canada. Our sector exports \$7.9 billion worth of goods, directly employs 49,000 Ontarians and provides \$2.3 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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