CHEMISTRY INDUSTRY ASSOCIATION OF CANADA

Chemistry Industry

2025 Canada Pre-Budget Consultation

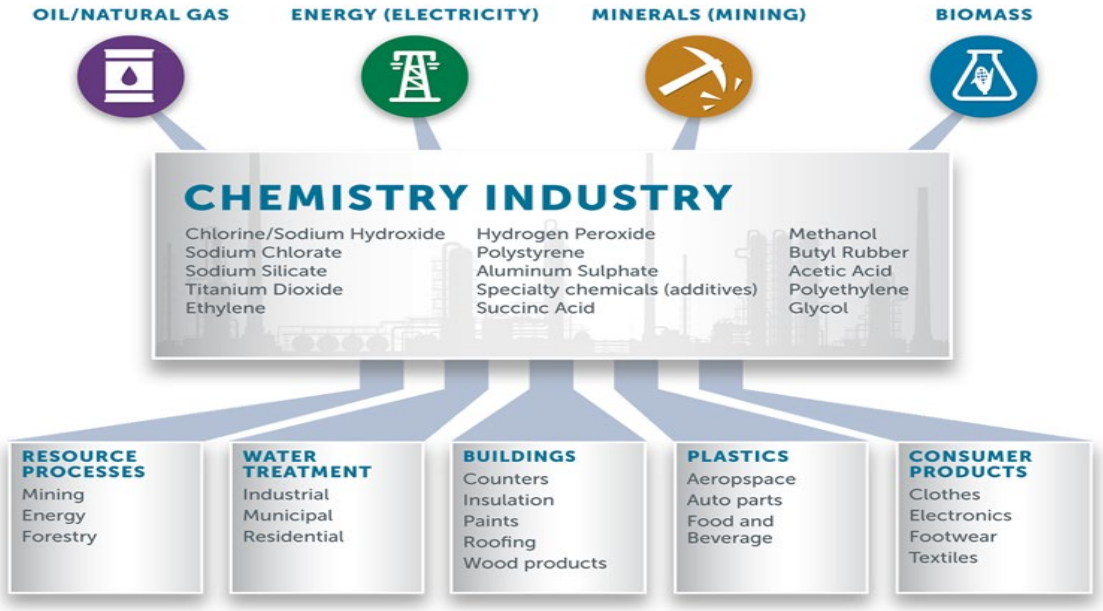
SUBMISSION TO
The Standing Committee on
Finance and Economic Affairs

Recommendations:

1. **Extend the Accelerated Capital Cost Allowance Program until at least 2040 with no phase-out or wind down until to 2034 to better align with Canada's ITCs for emissions reduction.**
2. **Ensure competitiveness is front and center during the mandatory review of carbon pricing and the Output Based Pricing System.**
3. **Encourage revenue reinvestment with industrial carbon pricing revenues during the OBPS review in line with Ontario's framework.**
4. **Adopt a leadership role by encouraging provinces to increase interoperability between carbon markets**
5. **Amend section 127.49 of the Income Tax Act to reflect the vital role of chemistry in turning critical mineral ores into value added products by adding: (f) manufacturing of chemical substances necessary for the activity described in paragraphs (a), (b) or (c). to the definition of *qualifying mineral activity*.**
6. **Work with industry to develop an investment plan including investment incentives to build recycling infrastructure to keep plastic products out of the environment and in the economy.**

Low-Carbon Chemistry Essential to Canada's Economic Future

The Chemistry Industry Association of Canada (CIAC) recognizes that climate change is an important global public policy issue, and that sound environmental stewardship and management of natural resources are fully consistent with good business practices. For decades, the chemistry industry has been actively pursuing GHG emissions reductions and CIAC member companies are working to continue these reductions. The industry's ability to deliver further emissions reductions, aligned with Canada's net-zero emissions ambitions by 2050, will depend in part on its capacity to work with governments to develop effective long-term regulatory policies. These policies should recognize the complexity of hard-to-abate, emissions-intensive trade-exposed (EITE) sectors, without impeding necessary innovation, investments, and growth.



The world is increasingly demanding products with the lowest emissions intensity possible and investors are taking notice with environmental considerations rising to the top of investor agendas alongside production competitiveness. We should not underestimate the scale of the challenge to compete for these investments. In the past few years, the United States, Europe, the Middle East and China have mobilized their resources with generous incentive programs to raise their competitiveness profiles. Canada has recently enacted several Investment Tax Credit (ITC) programs for Carbon Capture Utilization and Storage, Clean Hydrogen and Ammonia production and Clean Technology Manufacturing all of which are applicable to some of Canada's chemistry producers. Over the past three years, 17 major projects to reduce emissions in the chemistry sector worth over $30 billion have been announced. In the last twelve months we've seen three major projects worth tens of billions of dollars receive Final Investment Decisions and move towards construction. While the ITCs are critical for many of these projects, they are technology specific and are not applicable to all chemistry manufacturing processes where proponents may be considering investments that increase process efficiency with best available technologies.

A Plan for Maintaining Competitiveness and Growing Investment

Canada faces the twin goals of keeping existing industrial facilities competitive while utilizing industrial carbon pricing to incentivize emissions reductions. CIAC supports the retention of industrial carbon pricing systems where they are currently in effect, if competitiveness with the United States and our international peers is maintained and carbon leakage is addressed through policies and programs which encourage investment. Further action is needed to ensure that chemistry producers can maintain their operations while investing in the best available technology to lower emissions and increase their operational efficiency. Two policy areas can help achieve these goals.

Accelerated Capital Cost Allowance

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 but it began to phase-out for property that becomes available for use after 2023. Indeed, economist Trevor Tombe from the University of Calgary, has called the expiry of the ACCA *"the largest tax increase you've never heard of,"* and has noted that the tax rate on machinery and equipment will increase by nearly 150% when the ACCA is phased out.[1] Similarly, a recent study by the National Bureau of Economic Research in the U.S., found that a near identical measure in the Tax Cuts and Jobs Act was one of the strongest elements of that taxation overhaul in attracting investment.[2] Canada needs to attract hundreds of billions of dollars of investment and a 150% tax increase is not conducive to achieving this goal. 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 incentivized in manufacturing and processing sectors. At a minimum, the government should re-commit to the ACCA until 2040 with no wind down or phase out until 2034 to align with the timelines of the ITCs. We recommend that the government make the ACCA permanent to provide a long-term signal to Canada's manufacturing sector that Canada values and intends to re-capitalize its manufacturing base as we move towards a low-carbon future.

Ensuring Competitiveness and Revenue Reinvestment are Front and Centre During OBPS Review

As part of the Greenhouse Gas Pollution Pricing Act, the government is to undertake a review of the Output Based Pricing System (OBPS) framework before 2026. To ensure that the OBPS and provincial industrial carbon pricing markets are working efficiently, we strongly recommend that the government adhere to three principles during the review. First, ensure industrial competitiveness with international peers, especially with our largest trading partner, the United States. The OBPS and carbon pricing more broadly, cannot leave industry less competitive relative to our peers, especially in sectors where CCUS or clean hydrogen are not readily available solutions to emissions reductions. Second, we encourage the government to adopt a similar approach as Ontario where revenue from carbon pricing is reinvested in the companies or sectors from which the revenue is collected if the investments increase production efficiency and lower emissions. The federal government can be a leader by encouraging provinces to adopt this measure. Finally, we were pleased to see Budget 2024 recognize the need for functional carbon markets across Canada and we recommend that the government encourage provinces to increase the interoperability of their carbon markets.

[1] Trevor Tombe, "Canada just started the largest tax increase you've never heard of," The Hub, May 16, 2024.
[2] Chodorow-Reich, Zidar and Zwick, "Lessons from the Biggest Tax Cut in US History," p.24-25, NBER Working Paper Series, July 2024.

Recommendations:

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2. **Ensure competitiveness is front and center during the mandatory review of carbon pricing and the Output Based Pricing System.**
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4. **Adopt a leadership role by encouraging provinces to increase interoperability between carbon markets.**

Amend the Clean Manufacturing Technology Investment Tax Credit to Cover the Vital Role of Chemistry in Critical Minerals Processing

As written the Clean Technology Manufacturing ITC does not reflect the essential role of chemistry in turning critical mineral ores into value added products for downstream manufacturing. Critical mineral processing and recycling requires a robust chemical supply chain to meet demand and stay competitive with competition abroad. Specialty chemistry is the enabler for critical mineral separation, processing, and battery recycling. Focusing solely on the supply of ore fails to take a holistic view of the supply chain and the geopolitical vulnerabilities at play. If a facility is built and lacks a domestic source of mineral processing chemistries, the entire supply chain is still captive to foreign influence.

Below is the language from Bill C-69, which amended the Income Tax Act by adding the following after section 127.48. Our recommendation concerns section 127.49: Definitions – subsection "qualifying mineral activity," and our proposed amendment is highlighted below.

> ***"qualifying mineral activity*** means:
> **(f)** manufacturing of chemical substances necessary for the activity described in paragraphs (a), (b) or (c).

This recommendation is complementary to the Strategic Innovation Fund and the Mines to Mobility initiative to build a sustainable battery innovation and industrial ecosystem in Canada. CIAC members are actively considering investment in critical minerals chemistry in Canada and strong investment incentives will be crucial in turning these plans into reality.

Recommendation:

5. **Amend section 127.49 of the Income Tax Act to reflect the vital role of chemistry in turning critical mineral ores into value added products by adding: (f) manufacturing of chemical substances necessary for the activity described in paragraphs (a), (b) or (c). to the definition of *qualifying mineral activity*.**

Advancement of Investment for Circularity Requires Derisking

Canada needs transformational system change to address current recycling challenges and meet the demand for recycled plastics while keeping plastics in the economy and out of the environment. Under current trends, global demand for plastics is forecast to triple by 2060 to not only meet our climate change and sustainability goals, but to meet the needs of developing countries as their populations transition to middle class and their desire for material goods increases. Nearly 60% of this demand could be covered by production based on previously used plastics.[3] Today's supply of recycled plastics only meets 6% of real demand. According to a 2021 study commissioned by Environment and Climate Change Canada, Canada's recycling infrastructure capacity gap will require a capital investment of $4.6 - $6.5 billion.[4] Canada is going to have further obligations under the Global Plastics Treaty, currently under development by the United Nations Environment Program, to enhance its recycling efforts. Being open-minded on innovation policy will be critical to plastics circularity and the decarbonization success of Canada's manufacturing sector.

Effective and efficient post-use management of plastics requires a collaborative approach between governments and industry to deliver the investments needed. The government will need to play a role in enabling and incentivizing recycling infrastructure investments. By supporting innovation and accelerating investment in recycling infrastructure across Canada, Canada can demonstrate its leadership and commitment to addressing plastic pollution.

Recommendation:

6. Work with industry to develop an investment plan including investment incentives to build recycling infrastructure to keep plastic products out of the environment and in the economy.

[3] Hundertmark et al., "How Plastics waste recycling could transform the chemical industry," McKinsey & Company, December 2018.
[4] Deloitte and Cheminfo Services Ltd, "Economic Study of the Canadian Plastics Industry, Markets and Waste," p. 19, Deloitte and Cheminfo Services Ltd., 2019.

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