CHEMISTRY INDUSTRY ASSOCIATION OF CANADA

Chemistry Industry

Fall 2025 Pre-Budget Consultation

Submission to FINA and Finance Canada

A Competitive Chemistry Sector for Canada's Economic and Climate Ambitions

Canada is at a critical juncture. The global investment landscape is shifting rapidly, driven by geopolitical competition, industrial reshoring, and the pursuit of pathways to decarbonize manufacturing. Jurisdictions around the world are scaling up efforts to attract capital, incentivize clean growth, and secure the supply chains of the future. Canada's industrial base is strong—what's needed now is the policy clarity and ambition to let it thrive. The recently passed Bill C-5 signaled a shift in Ottawa to embracing competitiveness as an objective. Strengthening both investment and operational competitiveness for Canada's manufacturing sector is essential to securing long-term prosperity. This means advancing a policy framework that not only attracts capital investment but also lowers the cost of doing business by modernizing infrastructure, streamlining compliance, and reducing regulatory friction.

At the centre of Canada's industrial transformation lies the chemistry and plastics sectors – both enablers of modern manufacturing. More than 95% of all manufactured goods rely on chemistry and every year innovative companies find new uses for plastic products. From critical minerals extraction and processing to the production of advanced materials for defense, aerospace, semiconductors, and automotive applications, chemistry and plastics are essential to building resilient, secure supply chains. They also play a pivotal role in advancing Canada's climate objectives through innovations like high-efficiency insulation, lightweight composites, hydrogen carriers, and clean vehicle components. Attracting investment in lower-emissions chemistry and resin production will allow Canada to meet growing demand for these products here and around the world.

Canada must rise to the challenge presented by our global peers—particularly the United States, where the recently passed One Big Beautiful Bill (OBBB), has altered the investment playing field. Capital will flow into jurisdictions that offer long-term certainty, policy coherence, and efficient permitting. Canada has the ingredients to compete—world-class talent, abundant cost competitive feedstocks, and increasing policy coherence across jurisdictions—but we need to match that ambition with policy tools of equivalent scale. The time has come to modernize our tax structures, aligned with investment, not political timelines, and send a strong, confident message: Canada is open for business, and competing to win it.

Our trade relationships must also be strengthened and diversified. The United States will remain Canada's most important trading partner, and bringing clarity and long-term certainty to our bilateral trade relationship is essential. However, in a more fragmented and competitive global economy, Canada must also deepen its engagement in new and fast-growing markets and have the transportation and trade infrastructure to meet this demand.

To address these urgent needs and opportunities, the Chemistry Industry Association of Canada (CIAC) proposes three mutually reinforcing areas of policy action:

- **Investment Competitiveness** – Enabling chemistry sector growth through tax reform and an efficient and fair transportation and trade system that can attract investment and improve access to global markets.
- **Climate Policy Competitiveness** – Ensuring industrial carbon pricing and related regulations support emissions reductions and industrial viability through flexibility, more efficient regulatory approval, attracting investment, and aligned with our international partners.
- **Plastics Sector Competitiveness** – Advancing a strategy for plastics circularity through regulatory reform and support for innovation and recycling infrastructure investments.

Investment Competitiveness: A Pathway for Long-Term Growth

The recently passed OBBB in the United States provides an unambiguous signal to global investors. With enhanced depreciation made permanent and significant increases to research and development tax credits, the U.S. has created a pathway to investment certainty. Capital is mobile, and it is flowing into jurisdictions that move with ambition and resolve. Canada must respond in kind.

A critical starting point is the Accelerated Capital Cost Allowance (ACCA). Introduced in 2018, this measure allows for full expensing of eligible capital investments and is one of the most effective and transparent tools for attracting manufacturing and processing investment. Importantly, the 2024 Fall Economic Statement recognized this by proposing to extend full expensing for capital assets through 2031. CIAC strongly supports this direction and encourages the government to go further and make the ACCA permanent to match the OBBB.

Additionally, research and development (R&D) incentives remain essential to sustaining industrial competitiveness. Canada's Scientific Research and Experimental Development (SR&ED) program plays a crucial role in supporting industrial innovation; however, past iterations have limited eligibility, tightened expensing rules and become more targeted to smaller businesses. The 2024 Fall Economic Statement proposed long-awaited modernization of the SR&ED program, including better support for process innovation, clearer eligibility rules, and expanded access for large public firms. CIAC welcomes and supports these proposals, and we urge the government to implement them swiftly. A modernized SR&ED framework will better align with today's innovation landscape—particularly in sectors like chemistry and plastics, where process optimization, circular economy and emissions-reduction technologies are advancing rapidly. We would welcome further discussions to design a more ambitious approach to make R&D expenditures to ensure the greatest coverage and to make these expenses fully tax deductible.

Finally, Canada's competitiveness depends on the ability to move goods to market efficiently and reliably. Recent years have exposed critical weaknesses in our trade infrastructure—from port slowdowns and labour disruptions to capacity constraints on key rail corridors. As a trading nation with global ambitions, we cannot afford unreliable supply chains. A comprehensive review of the Canada Transportation Act is needed and is required by the Act every five years. We are over do for this review and it must put competitiveness at its core: supporting shippers, ensuring a resilient and competitive rail system, and modernizing operations with long-term infrastructure investments to improve market access.

Together, these policy actions will establish a stable and compelling investment environment for the chemistry and plastics sector. Importantly, the taxation measures are only available to companies who have spent money and invested, either in capital equipment or by R&D mandates, in Canada. By following through on these commitments, we can unlock capital, accelerate innovation, and ensure Canadian products can reach global markets with confidence.

Recommendations:

1) **Make the Accelerated Capital Cost Allowance (ACCA) measure permanent to provide long-term capital certainty for investments.**
2) **Implement the SR&ED policy updates outlined in the 2024 Fall Economic Statement to make the program more accessible, innovation-focused, and effective for process-based industries like chemistry.**
3) **Commit to a comprehensive review of the Canada Transportation Act that prioritizes the competitiveness of Canadian shippers, the efficiency of the rail and port systems, and long-term infrastructure planning to improve market access.**

Climate Policy Competitiveness: Aligning Emissions Goals with Industrial Growth

As Over the last decade, Canada has developed a strong foundation for climate action—introducing carbon pricing, regulatory tools, and investment incentives. But to attract large-scale capital and meet emissions targets, we must ensure climate policy aligns with investment realities, technological timelines, and global competition. In emissions-intensive, trade-exposed (EITE) sectors like chemistry, where margins are tight and capital cycles are long, misaligned policy risks driving investment and emissions abroad, resulting in investment and emissions leakage, to jurisdictions lacking rigorous climate policy.

CIAC supports the Investment Tax Credits (ITCs) that are in place. The ITCs are among the most important levers to support industrial emissions reductions and clean growth. It is crucial though that coverage of the ITCs captures the whole product value chain. In particular, the Clean Manufacturing ITC should be amended to explicitly include the role of chemistry in critical minerals mining and processing. This sector is central to Canada's clean energy supply chain, yet key enabling chemical processes remain ineligible for support. These changes would amplify the effectiveness of climate tools while improving Canada's ability to compete for clean investment.

CIAC and its members support industrial carbon pricing as a mechanism to provide investment signals for companies to reduce emissions from their operations and can help to drive cost-effective emissions reductions. Considering the significant change and uncertainty in trade and tariffs, a full review of the Output Based Pricing System (OBPS) is needed, particularly for EITE sectors, to evaluate whether the current stringency and price schedule are still optimal.

When the federal government begins the OBPS review they need to consider:

- Ensuring competitiveness with international peers and largest trading partners, especially the U.S.
- Reinvesting carbon revenues, into the sectors that generate them, as in Ontario's Emissions Performance Program, to support emissions-reducing capital investments.
- Improve interoperability between provincial carbon markets to reduce complexity and enhance system efficiency.

Recommendations:

4. **Expand the Clean Manufacturing ITC to include the role of chemistry in critical minerals mining and processing.**

5. **Expand the Clean Technology ITC to include thermal batteries which can help lower industrial emissions.**

6. **Ensure competitiveness is central to the OBPS review, aligning industrial carbon pricing with global peers and avoiding carbon leakage.**

7. **Support Reinvesting carbon revenues, on a time limited basis, into the sectors that generate them, as in Ontario's Emissions Performance Program, to support emissions-reducing capital investments.**

8. **Encourage greater interoperability between carbon markets, both provincial and federal, to streamline compliance, improve fungibility and improve efficiency.**

Plastics Sector Competitiveness: Closing the Investment Gap in Circular Innovation

Canada has a critical opportunity to lead in plastics circularity through investment in both mechanical and advanced recycling technologies. The chemistry and plastics sectors are at the centre of this transformation, enabling scalable innovations such as product design for circularity, advanced recycling, step change mechanical recycling, next generation sorting and washing, and feedstock recovery. However, this opportunity remains underdeveloped. A 2021 federal study identified a capital investment gap of $4.6 to $6.5 billion in Canada's plastics recycling infrastructure. Bridging that gap is essential to meeting national goals on plastic waste reduction, climate action, and sustainable manufacturing.

Advanced recycling solutions are important technologies to closing this gap. These technologies convert post-use plastics into high-quality resins and chemical inputs, supporting a truly circular economy. They reduce the need for virgin materials, lower lifecycle emissions, and help Canada retain value-added processing capacity. Yet despite their promise, Canada has not sent a clear investment signal. By contrast, the U.S. has done so: under the OBBB, recycling and chemical transformation facilities are eligible for bonus depreciation and accelerated expensing—a powerful long-term incentive for project development. Canada must respond in kind.

To unlock this potential, Canada should develop a national investment strategy for circularity that attracts private capital investment in recycling and other circularity projects and infrastructure. This should include targeted investment incentives like including under the ACCA and eligibility under the Clean Manufacturing ITC, that encourage private capital to flow into next-generation recycling systems.

At the same time, Canada must reduce regulatory burdens that discourage circular investment. The Federal Plastics Registry (FPR) is a case in point. The FPR imposes significant administrative complexity without a clear policy purpose, risks duplicating existing provincial reporting systems, and lacks transparency regarding costs, enforcement, and practical benefits. CIAC supports data collection for policy development and performance tracking, however the FPR, as designed, will not provide the quality of data for either of those purposes. Similarly, the Canadian plastics industry is still dealing with the fallout from the prohibitions of several categories of single-use plastic items. CIAC has always highlighted that the addition of plastic manufactured items to Schedule 1 of the Canadian Environmental Protection Act, as a case of governmental overreach that did not follow the risk-based, science-based approach outlined under the Canadian Chemicals Management Plan. These types of policy actions undermine regulatory efficiency at a time when policy certainty is needed most. The federal government needs to work with its provincial and territorial partners and with industry to strengthen and harmonize regulatory efforts to avoid duplication and strengthen the business case for investments in circularity.

Recommendations:

9. **Develop investment attraction programs for plastics circularity, including but not limited to targeted incentives for mechanical and advanced recycling technologies, such as bonus depreciation under the ACCA or inclusion under the Clean Manufacturing ITC, after consultation with industry.**

10. **Repeal and reduce regulatory burdens that discourage investment and work with provinces, territories, and industry to strengthen and harmonize existing reporting frameworks to reduce regulatory duplication.**

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info@canadianchemistry.ca