Standing Committee on Finance (FINA)
Pre-budget consultations 2012

Chemistry Industry Association of Canada (CIAC)

Responses

1. Economic Recovery and Growth

Given the current climate of federal and global fiscal restraint, what specific federal measures do you feel are needed for a sustained economic recovery and enhanced economic growth in Canada?

It is widely recognized that Canada outperformed its G7 counterparts throughout the past recession and thus far into the recovery. Focused budget management permitted a strong fiscal response to the recent global crisis that did not compromise Canada's long-term finances – important for keeping business conditions stable and predictable which is essential for investment and long term economic growth. Government continues to send the right signals and address key issues with its trade agenda and focus on immigration and investment. This combined with a commitment to responsible resource development, greater collaboration amongst different levels of government, and regulatory streamlining – one-project, one review - should optimize environmental, social and economic outcomes and build the infrastructure needed for future growth. For the Canadian chemistry industry, Canada's fiscal performance and tax agenda have been important factors in boosting overall competitiveness. Over the past several budget cycles, there have been significant corporate tax reductions, federal and provincial, that have resulted in greater competitiveness with other jurisdictions where chemical products are manufactured. This, in addition to an enviable natural resource advantage, allowed our sector to weather the last recession better than the competition. As we look forward, existing facilities are well positioned to compete and some companies have recently expanded operations and are considering significant investment in Ontario and Alberta to take advantage of new opportunities in shale gas and biomass. Quebec could also see new chemical investment in line with continued growth in hydro-electricity supply and the province's ambitious plans for development in the North. The accelerated capital cost allowance (ACCA) for manufacturing machinery and equipment has been particularly effective in attracting investment dollars to Canada. We have recovered and are looking to grow but, like most of the Canadian economy, this position is tenuous given the weakening global economy and debt crisis in Europe. To strengthen and sustain economic growth, our members and the manufacturing sector in general must invest in the newest most energy efficient, environmentally sustainable and productive machinery and equipment. Canada needs to focus on maximizing the value from its natural resource base. Currently, the vast majority of our resources are being exported in their most basic form to be upgraded elsewhere. We need a focused effort to develop the business case to retain a portion of high value-added manufacturing revenues and jobs right here in Canada. We urge the Committee to recommend that the federal government continue spending restraint to restore balanced budgets, maintain corporate tax rates at current levels and institute the accelerated capital cost allowance as a permanent measure.

2. Job Creation

As Canadian companies face pressures resulting from such factors as uncertainty about the U.S. economic recovery, a sovereign debt crisis in Europe, and competition from a number of developed and developing countries, what specific federal actions do you believe should be taken to promote job creation in Canada, including that which occurs as a result of enhanced internal and international trade?

Skilled labour shortages across Canada and particularly in Alberta are becoming acute. The tremendous growth in demand in the energy sector and the ability of that sector to outbid for skills and services is a growing concern. CIAC members are experiencing unsustainable wage pressures to retain workers and experiencing shortfalls in the availability of skilled workers. If not addressed this, in combination with demographic trends, could very soon impact our competitiveness and future investments. The effects are not limited to our sector for every job in the chemical sector generates an additional five jobs elsewhere in the economy. With such a large multiplier effect, chemical industry jobs are worth keeping and training people for. Canada needs trained workers with good communication skills in a range of key trades and professions. More Canadians need to be encouraged to stay within education structures to acquire the professional and technical skills needed today and for tomorrow. Another consequence of our resource boom is that high wages are luring young workers away from school before they have acquired the necessary training to sustain a long-term career. Budget 2012 identifies these issues and sets out a plan to address our skills shortages. Reforms to the EI system should help encourage workers to seek jobs and rejoin the workforce. Immigration policy is being adjusted to focus on skills criteria as a priority for fast-tracking applications. Provincial education structures and employers also need to play a role and provide new immigrants with training in communications and safety skills as these are essential in the chemical sector. In particular, CIAC member companies identify inter-provincial differences in apprenticeship requirements as a factor that negatively affects the supply of workers in training and their mobility. We ask that, similar to initiatives on corporate taxes and regulatory reform, the Committee recommend that the federal government increase its role and leadership in reducing inter-provincial barriers to the free flow of skilled labour across the country.

3. Demographic Change

What specific federal measures do you think should be implemented to help the country address the consequences of, and challenges associated with, the aging of the Canadian population and of skills shortages?

Note demographic change and job creating are included together under item 2. Job Creation.

4. Productivity

With labour market challenges arising in part as a result of the aging of Canada's population and an ongoing focus on the actions needed for competitiveness, what specific federal initiatives are needed in order to increase productivity in Canada?

Despite its relatively strong economic performance, Canada is facing a long-term productivity challenge and falls short when compared with the competition such as the US. Even though our employment levels have recovered since the recession (which is not the case in the US), overall labour productivity continues to lag. Why do we face such a conundrum? There are many different opinions. Some would argue that we are too focused on the US market and the forces are not present there to push us to become more innovative and efficient. This is why trade expansion and liberalization is good for Canada and the chemical sector. Many of our customer industries have moved offshore and we need access to those markets to build and maintain supply chains. Another contributing factor is our resource dependence. With commodity prices high and the world clamouring for our resources, we are extracting more and more from harder to develop reserves and the result is less productive uses of factors such as labour. This is a reality and needs to be balanced by greater activity in value-added areas such as manufacturing. CIAC believes that the Committee should consider three recommendations to address productivity. First, energy needs to become a matter of Canadian priority, bringing together the federal and provincial governments and energy stakeholders to develop a modern, comprehensive energy framework. This should be designed to achieve two strategic goals: first, to bring long-term balance to Canadian and continental energy markets; and secondly, to add value to our energy resources in the most sustainable way to create Canadian wealth and jobs, products that improve everyday living, and reduce our environmental footprint. CIAC supports policy initiatives which promote sustainable development of diverse energy supplies, energy conservation, and the concept of using energy feedstocks to produce high value-added chemical products. Second, the accelerated capital cost allowance for machinery and equipment (ACCA) should be made permanent. Strength in the resource sector tends to undermine the competitiveness of the manufacturing sector as the dollar appreciates. One of the best ways to counteract this, and help the manufacturing sector to compete, is through increased investment in machinery and equipment which generates greater productivity. Canada boasts a productivity advantage in industrial chemical production (we are 1.5 times more productive than our US counterparts) but this advantage has narrowed in recent years as investments have not kept pace. As mentioned above, we are seeing resurgence in chemical investments and opportunities and our member companies point to the ACCA as a key factor - it works. A number of chemical companies including BASF Canada, Cytec Canada, and Nova Chemicals have made, and are planning investments, and point to the ACCA as a key factor in making the decision to invest in Canada (we would be more than happy to share the specifics of these with the Committee). Furthermore, one large multinational chemical company is contemplating a $10 billion investment that would bring internationally recognized technology to North America for the first time. The company in question is considering Canada in its list of possible locations for the project. The target date for this investment is 2016-2017 which puts the project well outside of the current timeframe for the ACCA. If the measure were to be in place at the time when the site location is being decided on, it would put a Canadian location at a distinct advantage versus others. Third, we recommend that the Committee monitor and assess the impacts of changes to the federal SR&ED tax credit program through consultation with the business community. The reduction in the tax credit rate is of concern as several CIAC member companies have attracted global R&D mandates to Canada based on the strength of Canada's historical strength in R&D support. For example, Lanxess, a large German chemical company with operations worldwide, recently located its world R&D headquarters for butyl rubber in London, Ontario within Western's engineering and science campus. The company has cited Canada's R&D tax credit as a key determining factor. The announced changes to eligible expenditures, particularly the exclusion of capital, are also of concern to our members given that much of their research and development is aimed at process innovation and productivity improvements which are highly capital-intensive.

5. Other Challenges

With some Canadian individuals, businesses and communities facing particular challenges at this time, in your view, who is facing the most challenges, what are the challenges that are being faced and what specific federal actions are needed to address these challenges?