Canadian Paint and Coatings Association

Association canadienne de l'industrie de la peinture et du revêtement

Pre-Budget Consultation Submission in Advance of the 2019 Federal Budget

Ottawa, CANADA

August 1, 2018

RECOMMENDATIONS

Recommendation 1: That the government prioritize the alignment of regulations between Canada and the United States, specifically the assessment and management of chemicals in commerce, and the review and registration processes for biocides under RCC 3.0 wherein a number are used as preservatives in water-based paint.

Recommendation 2: That the government embrace Canada's global leadership in recycling of post-consumer paint by expanding the Greening Government Strategy to require that a minimum of 5 per cent of the architectural paint purchased for all federal public sector procurement projects be recycled material from paint.

Recommendation 3: That the government reduce the federal corporate income tax rate by two per centage points to attract and retain foreign direct investment in Canada, which has experienced zero investment in the last five quarters, while the US has recorded record investment during the same period.

Recommendation 4: That the government expand and improve the Accelerated Capital Cost Allowance (ACCA) depreciation rules to mirror the new US rules to ensure parity with our largest trading partner.

Recommendation 5: That the government introduce an Investment Tax Credit on purchases of new equipment and software of between 10 and 15 per cent to help companies, especially SMEs, improve cash flow and offset the impact of the low Canadian dollar on the cost of buying foreign machinery and equipment.

Recommendation 6: That the government introduce a federal "patent box" innovation support that would reduce taxes on profits from new products and product mandates.

Recommendation 7: That the government reform the Scientific Research and Experimental Development (SRED) program to lower the administrative burden and support a broader range of corporate innovation needs, especially product commercialization.

About CPCA

Since 1913, the Canadian Paint and Coatings Association (CPCA) has represented Canada's major paint and coatings manufacturers, and their industry suppliers and distributors in three primary product categories: architectural paints, industrial products, and automotive coatings. This represents more than 85 percent of the value of all paint, coatings, and adhesives manufacturing in Canada. CPCA members have more than 260 paint manufacturing establishments, own more than 3,000 retail outlets, supply products to another 5,000 retail stores and more than 7,500 auto body shops. This represents annual retail sales of more than $12.3 billion, employing directly and indirectly 87,000 employees, paying wages nearly 20% higher than the national average and paying $4.6 billion to Canada's GDP annually.

State of Paint and Coatings Manufacturing In Canada

CPCA appreciates the opportunity to participate in this important study of Canada's economic competitiveness and provide recommendations that address the fundamental issues impacting Canadian manufacturers, in particular, Canadian manufacturers of coatings adhesives, sealants, and elastomers (CASE) and their supply chains.

There is no debate, the Trump Administration's tax and regulatory burden reductions for U.S. businesses have undermined Canada's overall competitiveness. While the pundits have been reporting on the investment exodus from Canada, CPCA is focused on the continued challenges for Canadian-based manufacturing facilities and the loss of-thousands of quality Canadian jobs.

The Canadian paint and coatings industry is highly integrated with that of the United States. Both countries have greatly benefited under NAFTA with the removal of tariffs for paint and coatings. As a result, significant industry consolidation has occurred, affecting small- and medium-sized enterprises (SME) including established Canadian brands and larger multinational companies with manufacturing facilities in Canada. Some of these acquisitions have led to plant closures, job losses and the relocation of corporate head offices to parent companies based in the United States.

Domestically manufactured paint and coatings account for 48 per cent of the Canadian market, a 15 per cent loss in market share from a decade ago. Those products once manufactured in Canada are now imported from plants in the United States. While there is little to no disruption to consumer choice, there is significant disruption in the Canadian manufacturing base for coatings. The priority for CPCA has always been to ensure that these products continue to be produced in Canada. It is unclear how long those facilities will remain. Decisions on coatings manufacturing are increasingly made in the United States by multinational corporations, which represent the lion's share of the products now sold in Canada. These decisions are based on a number of factors including the local business environment such as barriers to entry related to various types of federal and provincial regulations.

The Canada/U.S. trade relationship is the most highly integrated in the world. Border disruptions became the exception rather than the norm as cross-border supply chains became highly efficient. The recent U.S. tariffs and Canadian countermeasures have caused businesses to pause and re-assess the business risk associated with cross-border operations, especially at a time when U.S.-owned companies are under political pressure to re-patriate their business operations.

There is no single or simple solution to instantly resolve Canada's competitiveness. However, the recommendations made by the Canadian Manufacturers and Exporters (CME) could help such as reducing the federal corporate income tax rate; expanding and improving the Accelerated Capital Cost Allowance (ACCA) depreciation rules; an Investment Tax Credit on purchases of new equipment and software; a federal "patent box" innovation support; and reforming the Scientific Research and Experimental Development (SRED) program. All will broadly help Canadian manufacturers compete for business and foreign investment.

The most efficient regulations ensure the protection of human health and the environment, while supporting economic growth and a level playing field. Such an approach will help align regulatory requirements and timelines with priority markets across multiple jurisdictions. Inefficient regulations undermine competitiveness, stifle innovation and leads to unnecessary, job-killing regulatory burden.

Paint and coatings is one of the most highly regulated industries in Canada, subject to numerous acts and thousands of regulations such as, but not limited to, the *Canadian Environmental Protection Act*, *the Canadian Consumer Products Safety Act*, *the Hazardous Products Act*, *the Transportation of Dangerous Good Act*, and the *Pest and Control Products Act.* Regulatory compliance is the core of CPCA's mandate and crucially important to its members who spend hundreds of millions of dollars annually on research and development to improve the safety, performance, and sustainability of the products and processes.

CPCA was pleased to see the June 10, 2018 signing of a Memorandum of Understanding (MOU) for the Regulatory Cooperation Council (RCC) by the President of the Treasury Board of Canada, the Directors of the US Office of Management and Budget, and US Office of Information and Regulatory Affairs. The accompanying press release stated, "Businesses will continue to benefit from the removal of unnecessary costs and duplicate requirements, as well as better market access. Consumers can benefit from timely access to products with consistent quality and safety standards."

RCC Work Plan 3.0

With RCC's renewed recognition of the importance of maintaining Canada/U.S. economic integration, open trade and increased regulatory alignment, RCC officials have confirmed that any issues with current regulations and/or guidance or applied methodology are indeed priorities under the new Joint RCC Action Plan. This would is critical in addressing significant differences in the way the Cananda Pest Management Review Agency and the Environmental Protection Agency assess and implement restrictions of use for substances in products. As such, the Canadian Paint and Coatings Association, supported by our U.S. counterpart the American Coatings Association (ACA), would like to propose that the RCC Work Plan 3.0 address a continuing and aggravating issue related to evaluation and re-evaluation of authorized biocides commonly used in Canada and the United States to preserve water-based paint. The coatings industry moved aggressively from solvent based paint to water-based paint in the past ten years due to Canadian VOC regulations and it now accounts for 95 percent of all architectural paint sold in Canada. At the same time it reduced VOC emissions from paint by 75 percent.

Biocides are critical antimicrobial active ingredients used in paint and coatings as a preservative to protect the integrity of the in-can content and films applied on surfaces during curing time. These are critical active ingredients for water-based coatings, which are more susceptible to various microorganisms during transport, shelf-life and application. These coatings now comprise more than 95 per cent of all the architectural paint used in Canada.

In 2017 the PMRA took final decisions regarding three registered preservatives/fungicides that will soon be severely restricted from their normal and effective use levels in Canada. These decisions are made while the U.S. EPA adopts no similar decisions or positions and there is no equivalent in the EU or in other countries. This decision will have a significant impact on Canadian manufacturers and undermines Canadian competitiveness.

For example, if we take one preservative/fungicide in particular, Octhilinone (OIT), the recent PMRA decision to ban its use in Canadian paint products has the potential to affect a major part of the architectural exterior paint segment. This represents 35 per cent of the value and 20 per cent of the total volume of sales ($1.1 billion of sales and 205 million litres of product). Moreover, this decision will negatively affect a large part of the interior and exterior paint segment as well as the in industrial/automotive paint products. The latter is used in OEM facilities or on industrial sites for maintenance of equipment and other structures, all in fully controlled occupational environments.

PMRA does not consider socio-economic factors in its decision-making. The cost/benefit analysis of RCC's involvement could help remove the direct, negative impact that will affect, for OIT alone, at least $115-$190 million in sales of paint products, including the costs of having to reformulate, field test and certify new products. It will also prevent new products from getting to market, which are not even accounted for in this number. The resulting impact could therefore be greater as it would encompass many of the industrial paint products used in various types of shops, in fully controlled environments.

We recommend that the active ingredients in question be added to the list of priorities for RCC 3.0 to ensure future alignment within the next two or three years. This will reverse the trend towards banning and/or restricting use of biocides for paint in Canada, while continued use is permitted in other sectors. To our knowledge, the current across the board bans soon to be implemented in Canada by the PMRA have no current equivalent in the United States or in any other international jurisdictions.

Federal Procurement of Post-consumer Paint

Biocides are also essential in extending the product life of water-based paints to facilitate waste diversion programs to re-use and recycling left-over consumer paints.

The Canadian coatings industry now leads the world in post-consumer paint recycling with a program in every province. In 2017, roughly one kilogram of leftover paint was recovered and recycled for every Canadian— approximately 28 million kilograms. One of CPCA's primary goals, on behalf of its members, is to ensure appropriate regulations are put in place to achieve the best possible outcomes for the environment.

CPCA members have been supporting the effective operations and efficient administration of product stewardship programs in Canada since the early 1990s. Unused or leftover **architectural** paint continues to be a major focus of product stewardship efforts because of its high volume in the household hazardous waste stream, the high cost to manage and its potential for increased reduction, recovery, reuse and recycling. The coatings industry has worked hard to ensure an environmentally sound and cost-effective program in all ten provinces.

PaintCare™ represents the paint industry's commitment to environmentally sound and cost-effective, end-of-life management for leftover paint, which is **fully funded by the producers (100 per cent), CPCA members constitute 98 percent of the volume in Canada**.

Manufacturers pay 100 per cent for the end-of life management of leftover paint, which includes such things as collection, transportation, storing, recycling and the related logistics and administration. CPCA continues to liaise with provincial governments that seek to establish new legislation and/or regulations related to waste management.

Under the Greening Government Strategy, the federal government seeks to transition to low carbon operations through a number of initiatives including green procurement and the adoption of clean technologies, products, and services. As Canada is a global leader in post-consumer paint recycling, CPCA recommends that the government implement a requirement that a minimum of 5 per cent of the architectural paint procured for all federal public sector procurement projects be recycled material.

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