

Driving Canadian Growth in the Global Chemistry Sector

*A Submission to the House of Commons
Standing Committee on Finance*

July 2017



**CHEMISTRY INDUSTRY
ASSOCIATION OF CANADA**



Responsible Care®
Our commitment to sustainability.



CHEMISTRY INDUSTRY ASSOCIATION OF CANADA

The Chemistry Industry Association of Canada (CIAC) is the voice of Canada's \$53 billion chemistry industry and represents more than 50 members and partners across the country.

Members of CIAC are signatories to Responsible Care[®] – the association's U.N.-recognized sustainability initiative. Responsible Care inspires its members to take actions that improve the sustainability of their operations and reduces harm throughout the entire life cycle of their products.



Executive Summary

The global chemistry industry is a story of innovation and incredible growth, well in excess of global GDP growth rates. While provinces have prioritized the chemistry sector for economic growth, Canada has largely been unable to capitalize on the opportunity in the absence of dedicated federal focus. Bold and timely action by the federal government is urgently needed for Canada to capture the opportunities:

Recommendations:

1. Increase federal investments in advanced manufacturing through program instruments, matching provincial commitments which have been made in support of projects approaching final investment decisions in 2018.
2. Make the 10-year extension of the *Accelerated Capital Cost Allowance (ACCA)* permanent for manufacturing and processing and broaden the coverage of eligible capital assets to signal Canada is welcoming new investments in value-add resource upgrading.
3. Introduce a 100 per cent ACCA for a minimum of one full business cycle of seven years to specifically apply to upgrading resources into manufactured products.
4. Implement a special manufacturing and processing (M&P) tax rate in the form of a two-point M&P reduction (from the current 15 per cent corporate tax rate to 13 per cent) to provide a stimulus for adding value to our natural resources.

➤ Canada's Chemistry Industry

Canada's chemistry industry is an important contributor to our nation's economy. It converts and adds value to raw resources such as natural gas, crude oil, minerals, and biomass, creating intermediate products that are used as inputs in other areas of the industry, and by almost all other manufacturing sectors. Shipments were \$53 billion in 2016, making chemistry the fourth largest manufacturing sector; exports were \$39 billion, second only to automotive.

The chemistry industry is the sixth largest manufacturing employer, directly responsible for 87,000 jobs. Industry employees are highly-skilled and well paid. Statistics Canada has estimated that for every job in the industry, another five indirect jobs are supported in complimentary sectors. In total, the industry supports almost 525,000 jobs in Canada.

However, Canada's chemistry industry comprises only one per cent of the \$5.2 trillion global industry, and we must compete hard to attract international investment. The American Chemistry Council estimates that over [\\$250 billion in new chemistry industry investments](#) are announced or underway in North America, driven largely by the shale gas phenomenon.

Only a small share of this investment, about 1 per cent is happening in Canada – we believe there is strong potential to attract a much larger share, at a minimum 10 per cent or \$25 billion in incremental investments which corresponds to Canada's historical share of North American investment in the sector. CIAC members are focused on new investments to deliver productivity improvements which will ensure global competitiveness and in turn greater wealth generation contributing to Canada's economic growth. But doing so will require that all investment-decision factors be made as attractive as possible.

1. Productivity and Competitiveness

In the chemistry sector, Canada is competing globally for the next wave of investments; for Canada, this means attracting incremental investments. The introduction of the technology agnostic, Strategic Innovation Fund in Budget 2017 was a good first step in re-orienting and broadening Canada's innovation strategy to win new, incremental investments in very profitable areas of the global economy.

The recent report from the Parliamentary Standing Committee on Industry, Science and Technology has identified the manufacturing sector as vital to Canada's economic well-being. The report notes the chemistry sector's excellent performance in job creation over the last two decades as well as the potential for expanding this sector as the shale gas revolution re-shapes energy markets.¹ With 96 per cent of all manufactured products being touched by chemistry, CIAC believes the sector is a vital component to Canada's manufacturing future.

¹ Standing Committee on Industry, Science and Technology, 2017. "[The Canadian Manufacturing Sector: The Urgent Need to Adapt](#)," Parliament of Canada, p. 8

Recent efforts by provincial governments - In Alberta via the \$500 million Petrochemicals Diversification Program which attracted 16 project proposals valued over \$20 billion, and in Ontario with the creation of the \$2.7 billion Jobs and Prosperity Fund – have shown that key provinces are committed to helping to grow the chemistry sector. What the industry needs now is a matching commitment from the federal government to show that Canada is making a proportional investment in advanced manufacturing, and enhancing Canada’s position in a highly competitive world.

Recommendation:

- 1. Increase federal investments in advanced manufacturing through program instruments, matching provincial commitments which have been made in support of projects approaching final investment decisions in 2018.**

2. Other Fiscal Considerations

Large chemistry projects take five or more years to complete from concept to the start of production. Having a 10-year temporary Accelerated Capital Cost Allowance (ACCA) in place allows companies to factor its impact into their site-selection process. But, to be very clear, this measure just matches existing permanent treatment in the U.S. and it needs to be made permanent, as a minimum to signal our intent to remain competitive.

A study done for CIAC in 2014 showed that depreciation measures (since made permanent) in the U.S. allow on average a faster rate of depreciation and includes a broader selection of capital asset investments covered under depreciation rules.² CIAC believes greater efforts by the government on capital investment measures will be needed to encourage value-add resource upgrading and to attract new projects to Canada to directly impact productivity and global competitiveness. One measure to consider is broadening the coverage of the types of capital assets that are available for ACCA to match the criteria in the U.S. for major industrial projects.

CIAC has conducted research which shows that enhanced accelerated capital cost measures do not impact the government revenues over the long-term.³ The ACCA speeds up the schedule for asset depreciation by de-risking investment capital during the planning and development phases before the investment is operational and generating cash flow for the investor. CIAC’s research has shown that for a 100 per cent ACCA on a \$2 billion investment (\$1 billion of capital assets meeting Class 43 eligibility) the federal government’s break-even date occurs eight years after the initial investment, after which the tax revenue stream is positive.⁴ However, this delay in collecting corporate taxes is not a zero-sum calculation. To the extent that the ACCA

² Pinto, Odette. 2014. [“Capital Allowance Systems for Chemical Corporations: Canada vs. United States,”](#) Contracted Research for CIAC. p 7-9.

³ Chemistry Industry Association of Canada, 2016. “Accelerated Capital Cost Allowance Analysis” Chemistry Industry Association of Canada. p. 6

⁴ Ibid. p.9

enhances the likelihood of a positive investment decision in Canada, early stage forgone tax revenues should be seen through a lens of additionality, whereby without the incentive offered by an ACCA the investment itself is unlikely to proceed, meaning the government will forgo all potential taxes. A new 100 per cent ACCA is a necessary additional measure to provide a deliberate incentive to invest in Canada in resource upgrading and value-add manufacturing. It is our view that this is the least cost option in terms of cost to Canadian tax payers.

Recommendations:

2. **Make the 10-year extension of the ACCA permanent for manufacturing and processing and broaden the coverage of eligible capital assets to signal Canada is welcoming new investments in value-add resource upgrading.**
3. **Introduce a 100 per cent ACCA for a minimum of one full business cycle of seven years to specifically apply to upgrading resources into manufactured products.**

The federal corporate tax rate of 15 per cent offers a competitive advantage compared to U.S. jurisdictions. It will be important for Canada to remain vigilant in retaining this position, and to respond to changes that may happen in the U.S.

CIAC has concerns about slippage in the corporate tax rate already seen in some provinces of key importance to the chemistry sector. It is the combined tax burden that matters to companies, investors and workers so increases at any level of government affects the overall operating environment for business. Specific to this point is new research that is enhancing our understanding of how corporate taxes impact individual firms.

Recent research has shown that increases in business taxes are necessarily borne by all the factors of production (capital, labour, consumers and governments) but that the impacts of these increases are processed differently depending on the economic system in place. A study out of the University of Calgary has shown that for an open economy like Canada's where goods, capital and labour are relatively easy to move (and prices more difficult to increase), that increased business taxes can lead to direct reductions in wages paid to employees.⁵ Studies out of the United States and Germany, countries that also have relatively open economies, echo these sentiments.^{6,7} The chemistry industry is particularly vulnerable to these sorts of "open economy" pressures, given our position as the second largest manufacturing exporter in Canada with a full 72 per cent of chemistry industry goods produced in Canada being shipped to global markets.

The chemistry industry also employs a highly skilled workforce, with 39 per cent of employees

⁵ McKenzie, Kenneth J., and Ergete Ferede. 2017. "[Who Pays the Corporate Tax?: Insights from the Literature and Evidence for the Canadian Provinces](#)," SPP Research Paper, The School of Public Policy, the University of Calgary. p. 17-18.

⁶ Faust, Clemens., Andreas Peichl and Sebastian Sieglösch. 2015 "[Do Higher Corporate Taxes Reduce Wages?](#)" Institute for the Study of Labour: Discussion Paper.

⁷ Felix, R. Alison. 2007 "[Passing the burden: Corporate tax incidence in open economies](#)." LIS Working Paper Series, No. 468

having obtained a university degree, wage pressures that arise from increases in corporate taxation will fall on these individuals who are part of a key demographic for the government's innovation and social policy agendas while also impacting overall company competitiveness.

While CIAC will be specifically approaching the Alberta and Quebec governments to introduce reduced manufacturing and processing corporate tax rates of 10 per cent, it is very important that the federal government also take part in pursuing investments in new capacity in resource upgrading/value-add manufacturing. Collectively, governments need to consider further stimulus to address the health of manufacturing in Canada and the adjustments to depreciation rates and corporate tax are ways to target global competitiveness for Canada at the least direct cost to government.

Recommendation:

4. **Implement a special manufacturing and processing (M&P) tax rate in the form of a two-point M&P reduction (from the current 15 per cent corporate tax rate to 13 per cent), to provide a stimulus for adding value to our natural resources.**

➤ Conclusion

The global chemistry industry is on a sustained and robust growth trajectory. Population and innovation forces suggest the volume of global chemical production will triple in the next 20 years. Each year, hundreds of billions of dollars of new chemistry investments are taking place. Canada's history as a leading and responsible chemistry jurisdiction suggests we are largely missing out on opportunities that should benefit our nation. There is an urgent need for action in Budget 2018 to ensure Canada does not miss out on these opportunities in the future. It will take bold measures to win new investments – but these investments will in turn provide long-term profitable growth for Canada that runs counter-cyclic to our resource-based sectors.



**CHEMISTRY INDUSTRY
ASSOCIATION OF CANADA**

805 - 350 Sparks Street, Ottawa, ON K1R 7S8 | 613-237-6215

canadianchemistry.ca | @ChemistryCanada

info@canadianchemistry.ca



Responsible Care[®]
Our commitment to sustainability.