Written Submission for the Pre-Budget Consultations in Advance of the Upcoming Federal Budget By:

Dow Canada

Recommendation 1: That the government build the right legislative framework to deal with consumer plastic waste.

Recommendation 2: That all provincial industry support programs be exempted from federal taxation by either amending the ***Income Tax Act*** or similar regulatory recognition.

For more than 75 years, Dow has been proudly innovating in Canada. We develop basic chemicals and plastics used to make a broad range of innovative and technology-based products and solutions in the packaging, industrial, infrastructure, and consumer care industries.

Dow Canada is headquartered in Calgary, Alberta and has manufacturing locations in Fort Saskatchewan and Prentiss, Alberta, and West Hill and Corunna, Ontario.

Dealing with Plastic Waste:

No one believes that plastic belongs in the natural environment. We support actions to protect the world's oceans. The Prime Minister has shown global leadership in raising the importance of this issue. Since the Prime Minister's first statement on this issue at the World Economic Forum, industry has made tremendous investments to create a more circular economy. The 'Alliance to End Plastic Waste' is the industry beacon that exemplifies this. Dow is proud of the leadership position we have taken in that organization.

The government has pledged to ban 'certain single use plastics.' We do not agree that this is the appropriate approach to deal with what is fundamentally a waste management issue. The impact of the proposed ban is modest compared to the proposed approach to achieve that result. In March, the Minister of the Environment testified before Parliament that in order to enact the ban of single use plastics, he would designate 'plastics' as a toxic substance under the *Canadian Environmental Protection Act (CEPA)*.

It is our considered view that such a course of action will significantly impact the perception of plastic in Canada and around the globe. We believe it will sour the investment climate in Canada for the petrochemical sector. This is directly at odds with the government's initiative to restart the economy. This should be of significant concern to the committee.

We do not believe that CEPA is the appropriate tool for dealing with post-consumer plastic. The issue with plastic waste is not the plastic itself, but the behaviour that allows it to leak into the environment. **As a criminal law statute, CEPA is meant to punish actions, not objects.**

Plastic is not, in the common vernacular sense, toxic. Labelling 'plastic' as toxic will create confusion in the public. A broad toxic designation that applies to all plastic will also capture the face-shields used by our frontline health care workers. It will include an endless array of other medical devices that are used to treat patients and diagnose illnesses. It will include the packaging that keeps our food safe, fresh and prevents waste due to spoilage. This is precisely the wrong message to send at this time when plastic is so essential to minimizing the spread of CoVid-19.

Industry had previously urged the government to build the appropriate statutory framework to address plastic waste. To date, the government has not followed this advice. **It has opted to take an existing tool and incorrectly apply it to the wrong task.** Instead of this approach, we would urge the government to build the appropriate legislative framework to address plastic waste. So doing would allow for the optimal regulatory design as opposed to using existing tools improperly. Our industry would support the creation of an appropriate legislative framework that would allow for the sound management of plastic waste. Making strategic investments into the waste management industry – as well as the plastics industry – can also spur the innovation needed to reduce the environmental risk of this material.

As Canada considers how it will emerge from a global depression, we should look to the most appropriate ways of ensuring that capital is deployed strategically to foster our recovery. A circular economy act that targets government dollars on the recovery and redeployment of used plastic can help create the circular economy that the government is striving for. We would support focusing on waste management practices and improving the infrastructure needed to recapture plastic waste.

Operational Support Programs:

We are strong supporters of the government's strategic innovation fund (SIF). Funds like the SIF are helpful in attracting new investment in the chemistry sector in Canada. Programs like SIF are helpful, but more is needed to get large scale investments across the goal-line. Permanent, and predictable, tax abatement programs like those found in Louisiana and Texas will effectively draw investment to Canada while growing Canada's tax base. Now, more than ever, we should be doing everything that we can to draw these types of investment supports.

By allowing for tax reductions during the construction, start up, and early operating phases of a new or expanded facility, Canada does not lose any tax revenue. Absent any legislated tax reductions, the investment would not otherwise flow to Canada. While these facilities are constructed, however, suppliers, small businesses, and employees are contributing to the federal coffers. But for the legislated reductions, none of those opportunities would be realized.

Predictable, long term, tax incentives are much easier to rely on than announce-able one-off for which there is little predictability for an eligible project. The Louisiana and Texas state programs are cemented in regulatory certainty, and if an investment is made, the tax benefit flows to the proponent of the new project without any political considerations. They are the model of an investment attraction program, and they should be emulated in Canada.

We encourage the government to consider an evergreen investment support program in collaboration with the provinces where clear conditions for eligibility are set in advance, and if those conditions are met, the benefit accrues to the applicant when the project becomes operational.

Certainly, we appreciate that the government wants to ensure cost containment. For companies, lengthy project development and operating timelines, require us to know that investment attraction supports are a certainty when making a final investment decision. Current programs are only available to, and reward, projects that fit within an application window. This unpredictable nature does not allow us to rely on these programs when making an investment decision. It clearly picks winners and losers.

Tax Implications of Investment Support Programs:

We would like to encourage the government to also consider a change in how provincial support programs (like Alberta's Petrochemical Diversification Program (PDP)) are treated by the Canada Revenue Agency. Currently, companies receive PDP support in the form of a royalty

credit, in turn, the recipient has to monetize or sell them to a royalty payer. This always happens at a discounted rate, which is likely to continue to shrink as more credits are released.

The sale of that benefit is taxed by CRA as revenue (with a possibility of double taxation provincially) when it is received. This ultimately makes any 'value' of any award significantly lower – with the delta being sent to the federal government in taxes. The bottom line is that it lowers the attractiveness of the jurisdiction to global investors who receive more tangible capital in other jurisdictions like Texas and Louisiana. We would support a modest amendment to the *Income Tax Act* (or a separate regulatory recognition) to specifically define these programs outside the scope of what is traditionally viewed as 'income.'

We would welcome the opportunity to testify before the committee and share our views on these important policy changes.

Sincerely,

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Dow Canada

CC: Hon. Bill Morneau, P.C., M.P., Hon. Mona Fortier, P.C., M.P.