CHEMISTRY INDUSTRY

2021

FEDERAL PRE-BUDGET CONSULTATION

SUBMISSION TO:
The Standing Committee on Finance

AUGUST 2020

CHEMISTRY INDUSTRY ASSOCIATION OF CANADA

Recommendations:

1. **Extend the Accelerated Capital Cost Program with no phase-out to 2030 and consider making it permanent to offset the impact of the COVID-19 pandemic.**
2. **Maximize impact of investment support programs by eliminating federal taxation of investment supports.**
3. **Reform the Scientific Research and Experimental Development Program (SR&ED) to help foster R&D in Canada by:**
   - **raising the investment tax credit to 20% from the current 15%;**
   - **eliminating or substantially raising the upper limit for taxable capital phase-out range from the current $50 million;**
   - **reinstating capital expenditure eligibility that was phased out beginning January 1, 2013; and**
   - **eliminating the 20% disallowance on arm's-length consulting payments.**
4. **Establish a Plastic Technology Innovation Fund (PTIF) with an initial allocation of $200 million and operated by Natural Resources Canada to further research and development of groundbreaking plastic technology applications in Canada.**

Chemistry is Essential to Canada's Economic Recovery

More than 95% of all manufactured products rely on chemistry. These include cleaning and disinfectant products to ensure safe and sanitary conditions in hospitals, restaurants, small businesses, and homes. Chemistry creates the plastic resins that allow for the packages that deliver fresh fruits and vegetables to Canadians and hundreds of other products in a safe and sanitary manner. Canada's chemistry sector has been resilient throughout the COVID-19 pandemic. Our facilities have remained operational and we continue to supply the products Canadians use in their everyday lives. The road to recovery from the COVID-19 pandemic, as well as confronting the policy challenges of climate change, plastic waste and the transition to a low carbon future will require chemistry solutions. Indeed, chemistry is an important part not only of Canada's economy but also the energy sector and we are recognized for utilizing abundant, low carbon resources, such as natural gas and natural gas liquids, hydroelectricity and biomass, as chemical feedstocks.

Today Canada's chemistry sector produces $54 billion worth of products annually. It is Canada's 4th largest manufacturing sub-sector with exports worth $37 billion, and it employs nearly 88,600 Canadians in high-skilled, high-paying jobs. Chemistry's ability to deliver effective, timely solutions today makes it an obvious choice to help lead Canada's transition to a low-carbon economy. It is within this context, and with an eye to the future, that the Chemistry Industry Association of Canada (CIAC) presents its recommendations for Budget 2021.

A. Building and Maintaining a Competitive Chemistry Sector

The COVID-19 pandemic has dramatically altered Canada's economy with many sectors operating significantly below capacity. Canada 's chemistry sector has shown remarkable resilience during the pandemic; supplying many of the products used to ensure safe and sanitary spaces and goods for Canadians. However, the future remains uncertain and Canada cannot afford to fall behind. The crisis has offered an opportunity to examine our assumptions and knowledge about domestic manufacturing and complex supply chains. Critical gaps in our manufacturing capacity have emerged throughout the crisis and the government should seize the opportunity to attract these investments.

Over the last few years, the CIAC has worked diligently to highlight the investment potential that exists in the chemistry sector. Ontario and Alberta recognized this potential, and both helped secure global scale investments, with Alberta recently re-committing to the chemistry sector through the Alberta Petrochemicals Incentive Program. The federal government has also invested, introducing the technology agnostic Strategic Innovation Fund (SIF) in 2017 which has supported chemistry investment. However, we must continue to build a competitive investment environment, particularly now as governments around the world are examining their own domestic manufacturing capacity.

In 2018, the federal government introduced the 100% Accelerated Capital Cost Allowance (ACCA) for major capital projects (specifically Class 53 equipment). This program is set to operate through 2028, subject to a phase-out for property that becomes available for use after 2023. The COVID-19 pandemic severely disrupted the normal investment cycle. In its most recent Business Outlook Survey, the Bank of Canada found that "firms signaled a significant decrease in capital spending over the coming months with the balance of opinion on investment intentions in machinery and equipment turning to **a near-record low**." Good capital projects interrupted by the pandemic should not be put at further risk because they miss a program window. The federal government should strongly consider extending the measure to 2030 to recognize the business planning cycle for major capital expenditures and eliminating the phase-out provisions. Furthermore, consideration should be given to making the allowance permanent to provide long-term certainty to capital intensive investors.

Recommendations:

1. **Extend the full 100% Accelerated Capital Cost Allowance with no phase-out to 2030 and consider making it permanent to offset the damage of the COVID-19 pandemic.**

Investment support programs are critical to attracting global scale investments that will increase Canada's chemical capacity. But, in many cases, the actual value of these supports is less than they appear. Investment supports are often subject to federal and provincial corporate income tax, which can decrease the value of these supports by up to 30% depending on jurisdiction. CIAC understands that governments are concerned about revenues, but capital-intensive projects are significant economic multipliers with recent projects in Canada experiencing up to 75% of spending going to Canadian companies and over 50% of spending occurring within 100km of the project. The federal government is the largest beneficiary of tax revenues from all the goods and service needed to realize a capital investment. Working with provinces to end the taxation of provincial investment supports will help maximize impacts and realize their intended purpose to encourage new investment.

Recommendations:

2. **Work with the provinces to maximize the impact of investment support programs by ending the taxation of investment support programs.**

CIAC and many other major business groups such as the Canadian Manufacturers and Exporters, the Business Council of Canada and the Canadian Chamber of Commerce, agree that the time has come for a comprehensive review of Canada's business taxation environment. The recommendations above are important in strengthening Canada's investment environment in the immediate term. But as we move further away from the last federal review conducted in 1996-1997, it is important that the government of Canada realize the dramatic changes that have occurred to Canada's economy. It is time for a comprehensive review of business taxation in Canada and the COVID-19 crisis offers an opportunity to have this critical discussion.

B. Building a World Class Ecosystem for Chemistry Research and Development

The chemistry sector is one of the most research-intensive sectors in the global economy. Chemistry consistently ranks as the world's 2nd most patented sector after Information Technology and, in Canada, it employs the second highest rate of university graduates behind electronic and computer manufacturing. However, Canada is lagging other jurisdictions in attracting private chemistry Research and Development (R&D) mandates. Similarly, Canada is also behind on the commercial deployment of groundbreaking technologies and processes that can help resolve the pressing issues of our time such as raising the standards for public health, leading the transition to a low carbon future, and delivering a circular economy for plastic waste. CIAC believes that a strong economy requires a strong research and development architecture and Budget 2021 can help address longstanding concerns and invigorate Canada's economy.

Reforming the Federal Scientific Research and Development (SR&ED) Tax Incentive

The Federal SR&ED tax incentive is the government of Canada's largest and most widely available tax credit program that fosters research and development. The program provides more than $3 billion annually to over 20,000 claimants and is administered by the Canadian Revenue Agency (CRA). Given the SR&ED program's longstanding position in the federal taxation architecture, many provincial programs use the SR&ED as a model (or a co-qualifying program) for their own R&D tax credit regimes. CIAC believes that changes to the SR&ED program are required to ensure that Canada re-establishes itself as a destination for global research mandates. As it stands today, the SR&ED program is difficult to access and onerous to companies, with the CRA performing the dual role of judging and auditing SR&ED compliance. SR&ED has also seen its eligibility criteria tightened since the early 2000s while seeing the investment tax credit itself decrease from 20% to 15%. Reforming some of these aspects will help re-invigorate private sector research and development in Canada.

Recommendations:

3. **Reform the SR&ED program to help foster R&D in Canada by:**
    a. **raising the investment tax credit to 20% from the current 15%;**
    b. **eliminating or substantially raising the upper limit for taxable capital phase out range from the current $50 million;**
    c. **reinstating capital expenditure eligibility that was phased out beginning January 1, 2013; and**
    d. **eliminating the 20% disallowance on arm's-length consulting payments.**

Establishing the Plastic Technology Innovation Fund (PTIF)

As noted, more than 95% of all manufactured products rely on chemistry and many of these include plastic resins. From personal protective equipment and sanitation measures for food products to wind turbines, vehicle and aircraft components and building materials, plastics chemistry is vital to our lives. These products enable our modern way of life, but they do not belong in our waterways or in the environment.

Today in Canada, due to inadequate sorting, contamination, limited end markets and not employing all the technologies available, 86% of all post-consumer plastics end up in landfills—three million tonnes annually. The current approach to producing, using and disposing of plastics poses a real threat to the environment and results in a significant loss of value, resources and energy. However, there is not a "one-size fits all" solution to managing plastic waste. A variety of technologies and approaches will be needed to keep plastic waste out of the environment and in the economy. Our industry is already stepping up to do our part and reach our goal of a zero plastic waste future.

The Alliance to End Plastic Waste (AEPW), was created in 2019 to advance solutions to eliminate plastic waste in the environment by transitioning to a circular economy for plastics. The AEPW has committed over US $1.5 billion so far to deliver waste management solutions globally. Many of the founding members of the Alliance are CIAC members but more can be done. Further innovation and ingenuity, particularly from the chemistry sector will be key in developing a truly circular economy for plastic products. In further pursuit of this goal, CIAC is proposing that the Federal government build on successful models such as the Energy Innovation Program and the Expanding Market Opportunities Program for wood products to nurture and expand Canada's technological capacity to address the problem of plastic waste.

CIAC recommends that the Federal government establish the Plastics Technology Innovation Fund (PTIF) with an initial funding allocation of $200 million. The fund would be managed by Natural Resources Canada (NRCan) and would be a game-changing program for plastic technology research and development in Canada. NRCan would be responsible for assessing applications brought forward by the private sector and research communities that will accelerate innovation in areas of product design, and advanced plastics recycling and recovery technologies such as chemical recycling, pyrolysis, gasification and energy recovery. Additionally, the fund would support demonstration projects to help normalize the use of products made with recycled plastic for consumers and businesses, and test new technologies in pre-commercial applications.

Recommendations:

4. **Establish the Plastic Technology Innovation Fund (PTIF) with an initial allocation of $200 million and operated by Natural Resources Canada to further research and development of groundbreaking plastic technology applications in Canada.**

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