



## ENABLING CLEAN INVESTMENT AND ACHIEVING OUR NET ZERO GOALS

### ISSUE

Canadian chemistry products are the nexus of all solutions to energy efficiency, net-zero emissions, and a circular economy. As we work to make these goals a reality the world will need more, not less, chemistry solutions. Investment in both old and new production lines will be part of the solution and competition for investment in the chemistry sector is fierce. Other jurisdictions are moving aggressively to attract investment. The U.S. recently passed the Inflation Reduction Act that leaned heavily on incentives to entice investment. Jurisdictions in the Middle East and Asia also offer generous incentive programs to raise their competitiveness profile. To date, Canada's climate change policy has focused on building a framework for pricing greenhouse gas emissions (GHGs), but incentives to industry outside of specific sectors has been limited. In the case of heavy industry emissions covered by provincial or the federal Output-Based Pricing System (OBPS) framework, zero dollars of the money collected is sent back directly to the sectors creating the emissions. The lack of incentives is weighing on Canada's competitiveness, and we must remain competitive.

### CONTEXT – CHEMISTRY IS CRITICAL TO CANADIAN ECONOMY

Canada's \$65 billion chemical manufacturing industry is a significant contributor to our country's economy. The sector is directly responsible for 78,500 jobs and pays approximately \$6.63 billion in salary and wages. Primarily concentrated in Alberta, Ontario and Quebec, the industry supports an additional 392,500 jobs in the overall economy across the country.

- In 2021, industry shipments were \$94 billion - \$65 billion in chemistry (\$29 billion in industrial chemicals) and \$29 billion in plastic products.
- 4th in value of shipments behind Transportation Equipment, Food, and refined energy products.
- 3rd in value-added manufacturing output.

More than 95 per cent of all manufactured products rely on chemistry and there is a growing global demand for chemicals and plastic resins with the lowest carbon production available. Investors are taking notice. Lowering emissions while meeting demand is now fundamental to chemistry sector investment. Our sector will need to attract hundreds of billions of dollars of new investments in the coming decades to modernize out facilities and to create brand new plants to meet growing global and domestic demand. Failure to attract this investment means Canada will need to import low-emissions chemistry.

Chemistry and plastics help all Canadians reduce emissions in key sectors:

- green buildings including innovative insulation to prevent heat and cooling loss in homes
- sustainable transportation by making vehicles lighter; powering batteries in electric vehicles
- clean energy such as solar and wind turbines
- sustainable agriculture
- lightweight food packaging that prevents spoilage

### CREATING A COMPETITIVE REGULATORY AND POLICY LANDSCAPE

Chemistry is vital to achieving the federal government's net zero carbon emission goals. Chemistry plays a crucial role in the supply chain for almost all manufacturing in Canada. Decarbonizing chemistry sector production and downstream supply chain will require significant investment in existing production facilities. Competition for this investment is intense. Recently, the U.S. passed the Inflation Reduction Act, one of the



most comprehensive economic packages designed to entice private capital in decades. Canada cannot sit by as other jurisdictions court investment. We must create a competitive regulatory and policy landscape that welcomes private capital. Key features of a competitive landscape include:

- Certainty and predictability in carbon policy and revenue recycling.
- Long-lived, transparent and broad-based investment attraction programs based on Canada's a-political tax code, that entice both brownfield and greenfield, capital investments.
- A dynamic Research & Development (R&D) ecosystem. Led by a long-term focus and underpinned by undertaking the promised review of the Scientific Research and Experimental Development (SR&ED) ITC.
- Recognition of Responsible Care® as a global standard environmental, social and governance (ESG) program, and encourage broader industry participation

## ENABLERS TO ATTRACT INVESTMENT

**Certainty and predictability in carbon policy and revenue recycling** will underpin chemistry and plastic sector investments to help our industry and others (including the federal government) achieve society's net zero ambitions.

- Certainty and predictability are eroded with layering of multiple policies and priorities on Carbon Pricing (Clean Fuels Regulation, Clean Electricity Regulations, Oil & Gas Emissions Cap).

Policy actions should **avoid stranding previous investments** in emissions reductions that generate capital, credits, or offsets.

- Investors need to be sure that emissions reduction investments will mean something a few years after they are made and are not rendered irrelevant by quickly changing regulations.

Ensuring future investment attraction **programs are long-lived** and are available to investors for at least 10 years once operating. Capital planning and construction cycles for chemistry and resin facilities can take seven to ten years and policy certainty across that time horizon is critical.

Utilizing Canada's tax code to **increase transparency, program access and uptake by private sector capital.**

- Newly developed ITC incentives should be technology agnostic as long as these investments reduce emissions or result in emissions reductions above prevailing industry rates.
- Tax measures should be outcome based with clear eligibility criteria providing predictability and certainty.

**Extending the Accelerated Capital Cost Allowance** until at least 2040 with no phase-out or wind down until at least 2030 to ensure that Canada's manufacturing sector can make critical investments to strength domestic supply chains and build back better from the COVID-19 Pandemic.

## POLICIES WE ARE WATCHING

CIAC has reviewed the proposed CCUS ITC and while supportive of many we have some feedback for policy makers as the ITC is finalized:

- The support for CCUS in the U.S. IRA has changed the economic landscape and has made the U.S. very competitive in attracting CCUS investment. Canada needs to strengthen its own CCUS ITC and the broader CCUS incentive ecosystem to close the competitiveness gap with the United States.
- **Application review behind closed doors erodes predictability and certainty.** Eligibility criteria and technical guidelines should be established upfront and there should limited or no review processes upfront to confirm eligibility.

- The depreciation rate for CCUS project equipment, Class 57, is very low at 8 per cent per annum. Equalizing the depreciation rates between Classes 57 and 58 near historical norms for manufacturing and process equipment of 20-25 per cent would strengthen the program.
- Many CCUS projects will be integrated with existing infrastructure including CHP units. Classes 57 and/or 58 should include costs associated with re-purposing or re-directing CHP plants already in operation.
- It was encouraging to see CCUS projects named under the mandate of the Clean Growth Fund in the 2022 Fall Economic Statement.

CIAC was pleased to see new investment attraction programs for Clean Technology and Clean Hydrogen projects in the 2022 Fall Economic Statement.

- Low-carbon chemistry can take many pathways and the broad nature of the Clean Technology ITC and the acknowledgement of numerous pathways to clean hydrogen reflect this.
- We will be participating in the consultation process for these ITCs.

Undertaking the **review of the SR&ED program** announced in Budget 2022 and recommitted to in the 2022 Fall Economic Statement.

- Canada is lagging other jurisdictions in attracting private chemistry R&D and a comprehensive review could re-establish Canada as a destination for global research mandates.
- The SR&ED program is the largest R&D tax incentive program in Canada and needs to be modernized for the 21<sup>st</sup> Century. The program review should not be prescriptive and should be open to new approaches.

Consider a suite of innovation policies that **address the complex barriers to entry** for innovation in the chemistry and plastic sectors.

- Consider using production-based incentives, in the form of tax credits or direct payments to incentivize new technology deployment.
- Consider the development of patent-box approaches for newly deployed technologies to lower the operating cost of new processes.