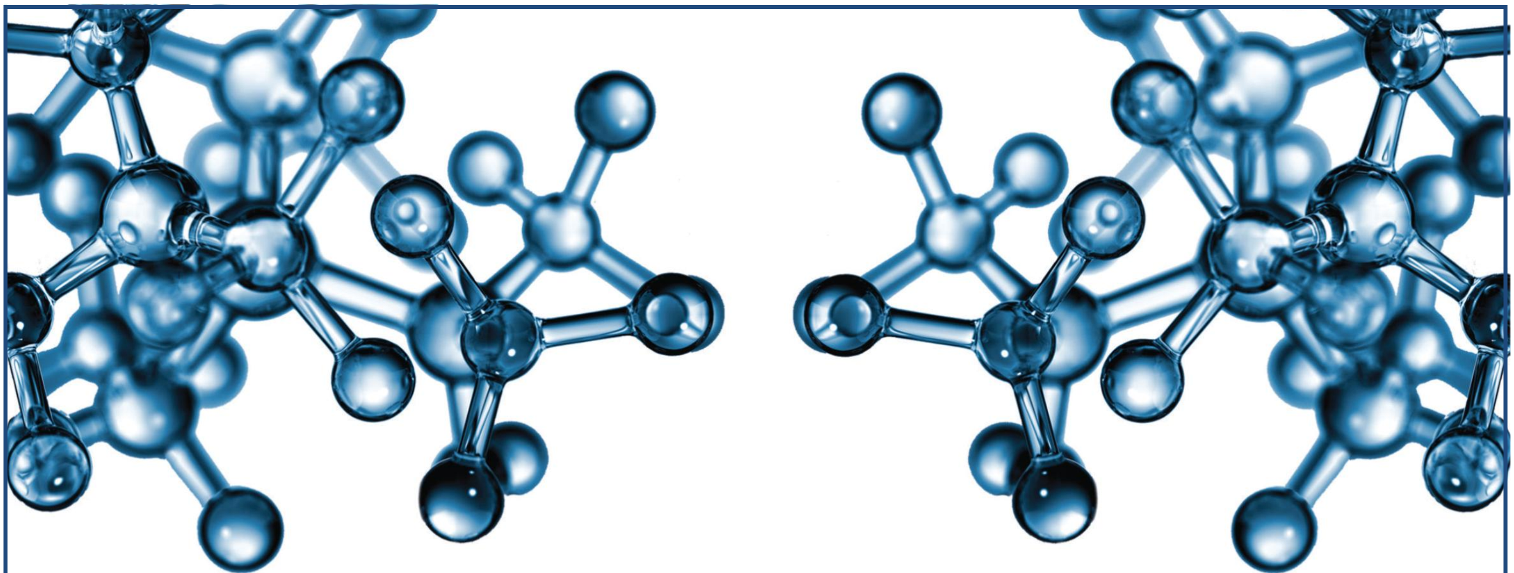

CIAC Priorities for the 2015 Federal Budget

Future Growth Depends on Our Competitiveness: Why a permanent ACCA is Key to Our Economy

Submission to the
Standing Committee on Finance and Economic Affairs

Chemistry Industry Association of Canada (CIAC)
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Chemistry Industry Association of Canada
canadianchemistry.ca

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Executive Summary

As Canada continues its path to economic recovery, our North American trading partners – the U.S. and Mexico – are increasing their competitiveness with moderate wage growth, sustained productivity gains, stable foreign-exchange rates and tax incentives. The Canadian economy is poised to grow, but to ensure that it does so we need the right tax policies in place to stimulate investment. The accelerated capital cost allowance (ACCA), a temporary measure that expires in 2015, is an effective way not only to stimulate much needed investment in machinery and equipment, but also to support Canadian companies as they compete with their U.S. counterparts.

To provide Canadian manufacturers the competitive advantage necessary for sustained growth, the Chemistry Industry Association of Canada (CIAC) urges the Federal Government to permanently adopt a capital cost allowance for manufacturing machinery and equipment that – at the very least – matches that of the U.S. The CIAC strongly recommends the adoption of a *permanent* depreciation rate of at least 45 per cent to attract new investments and achieve upgrades in Canada's manufacturing sector and facilitate resource upgrading.

Canada's Chemistry Industry

The CIAC represents the leading industrial chemical producers and chemistry service providers operating in Canada. Canada's chemistry industry is the second largest exporter among all manufacturing sectors, accounting for more than $32 billion in exports last year. Chemical shipments are at record levels, exceeding $50 billion this past year, with over half of those shipments representing industrial chemicals. This industry fuels Canada's economy and offers Canadian workers exciting career opportunities. The industrial chemical industry creates 82,000 permanent jobs every year with an average annual salary of greater than $90,000. One third of our employees have post-graduate degrees, the second highest level in the manufacturing sector. However, Canada's industry comprises only a small fraction of the $5 trillion global chemical industry and we must work harder to attract an increased share of international investors.

The recent development of the shale gas supply, and lower prices relative to oil, is resulting in an estimated $120 billion wave of chemical investment across North America. Unconventional oil and gas afford an opportunity for resource upgrading and value-added manufacturing. But for Canada to take advantage of this resurgence of manufacturing already happening in the U.S. and secure a share of these investments, we must act strategically.

How the ACCA can Help our Industry Grow

Since the ACCA was first introduced in 2007, it has provided incentives for manufacturers to invest in new production technologies. The Canadian Manufacturers and Exporters (CME) estimates the annual level of investment in manufacturing machinery and equipment has increased by $5 billion since 2010. In order to continue this rate of investment, and to ensure that Canadian companies remain competitive with countries offering similar tax breaks, we need to make this temporary measure a permanent one.

Extending the ACCA, or a similar measure, will ensure that Canada's tax system remains competitive and will help Canadian companies attract direct investment in new technologies. Doing so will enable Canadian manufacturers to compete with other countries, such as the U.S., that already have in place permanent rapid write-offs for their manufacturing sectors.

Investing in Canada

Continued and sustained wealth creation, new jobs and investments will require concentrated effort on the part of all stakeholders. A balanced federal budget and the securing of market access through strategic free trade agreements are positive first steps, however, it is commercialization, greater competitiveness and increased profitability that will be the drivers for local industrial innovation, including investment in research and development (R&D). It is the proximity to strong and competitive manufacturing that spurs R&D, and influences global investors' locational choices.

Shale gas has transformed the face of the energy sector across North America and as a result, the U.S. is seeing unprecedented growth, in particular in energy intensive areas of its economy. Canada is also poised for growth, but in order for Canadian companies to enjoy the same opportunities and endowments as their U.S. counterparts, the manufacturing sector – and specifically chemical manufacturing – must be part of the recipe for growth. It will take a targeted focus on competitiveness to achieve a strong Canadian economy in the face of stiff competition from the U.S. and other countries around the world. Canada is already working to secure access to new markets through free trade agreements and is also addressing border security and transparency issues with our North American neighbours. The CIAC is confident that these measures will help open the door to future opportunities.

There is, however, still work to be done to ensure that our industry can compete in the global marketplace. Canada's depreciation treatment for new investments in the chemical sector falls well short of those offered in the U.S., which leaves our industry at a competitive disadvantage. Rail service for the Canadian chemical industry has been deteriorating, rather than improving and with service barely adequate for existing operations, this will impact future growth. Potential investors are also deterred by duplicative and sometimes conflicting federal and provincial environmental regulations.

Canadian chemical producers also need commercial access to an incremental feedstock supply. It exists and it is abundant. If we secure it at a competitive price, we will have the opportunity to upgrade it, allowing us to add value, jobs, taxes and fulfil value-chain goals. For over a decade North America and central Canada in particular, has been experiencing a serious erosion of its manufacturing base, but the shale gas revolution is a chance to turn that around.

Over the past several budget cycles, there have been significant corporate tax reductions – both federally and provincially – that have resulted in greater competitiveness with other jurisdictions where chemical products are manufactured. Existing facilities are well positioned to compete, however to ensure we remain competitive CIAC members, and manufacturers in general, must invest in the newest, most energy-efficient, environmentally sustainable and productive machinery and equipment available. To attract new investments to Canada we must match the competition, particularly our U.S. counterparts. The U.S. chemical industry benefits from faster write-offs for capital costs, which helps them to attract investors. Canada must match these write-offs or face a continued loss of growth.

The CIAC believes that in the upcoming 2015 budget, the Federal Government must focus on creating an environment that will encourage the investment necessary to rebuild strength in the manufacturing sector. To provide the level playing field needed to support innovation and new investments, the depreciation allowance for manufacturing machinery and equipment must at the very least match the treatment provided in the U.S. and must also be a permanent measure. Independent analysis of a recent study performed by CIAC comparing the investment depreciation allowance treatment available in Canada to similar measures in the U.S. found that Canada would need a permanent deprecation allowance for machinery and equipment of at least 45 per cent in order to remain competitive. This would also allow choices for Canadian industry, without prescribing solutions; companies would have the ability to invest and upgrade a portion of Canada's rich resources while still exporting a portion of their production.

The importance of an enhanced, but permanent, measure cannot be stressed enough. It takes almost five years to build a world-scale chemical plant: from making the decision to build, to obtaining necessary permitting approvals, to preparing the site, to construction and commissioning – all before production and sales can even begin. The business case for such an investment, which can often exceed $1 billion in what is a capital-intensive sector, requires a stable investment environment, which begins with a competitive and permanent depreciation allowance.

Conclusion

North America is experiencing a manufacturing revival, but for Canada to secure a share of the growth and continue to increase manufacturing and value-added jobs, a permanent and enhanced depreciation allowance for manufacturing machinery and equipment is essential. As the current accelerated capital cost allowance is about to expire, a measure that – at minimum – matches the U.S. treatment for similar investments is desperately needed. If the Canadian government were to adopt a permanent depreciation rate of at least 45 per cent, it would not only permit long-term and sustained investment planning, it would also improve the business case for investors considering a Canadian location. Canada's chemical industry would benefit, as would the health of Canada's economy.

Who We Are

The Chemistry Industry Association of Canada (CIAC) is the voice of Canada's chemistry industry. We represent more than 50 chemistry companies and transportation partners across the country – from Canada's largest petrochemical, inorganic and specialty chemical producers, to bio-based manufacturers and chemistry-related technology and R&D companies. The CIAC is also recognized as a world leader in the sustainable stewardship of chemical products. For a complete list of Members and Partners see our web site: www.canadianchemistry.ca.