Submission by the Canadian Chemical Producers' Association (CCPA)
Competition Policy Review
January 11, 2008

Summary and General Comments

"The fundamental task of the Panel's review is to provide recommendations to the government on how to enhance Canadian productivity and competitiveness, as these are keys to generating wealth and creating jobs and opportunity in a fast-changing global economic environment." (Page 1, Sharpening Canada's Competitive Edge)

This is a very broad mandate and CCPA will restrict its comments and recommendations to one narrow aspect of the mandate. Specifically, CCPA will not be commenting on the Investment Canada Act, the Competition Act and the Competition Tribunal Act beyond stating an already recognized and often repeated fact that competition is global and any assessment of competitiveness requires the consideration of global realities. From that premise, some changes will need to be considered in how we measure competition, i.e., for sectors of the economy where there is clear and open global competition such as value-added resource based manufacturing, our measuring stick should be our competition around the world. CCPA will focus its comments on this specific area.

Investment policy and more broadly the micro-economic fundamentals that visibly permit the measurement of our competitiveness are important drivers in attracting new investments and jobs to Canada. What matters to investors is their assessment and determination that they can make a better profit within this country and its policy environment, rather than somewhere else. The perceived constraints on profit are the deterrents and can include: access to raw materials (goods and services) and markets, infrastructure and government policies, legislation, regulations and programs. When any of these are less than optimal, Canada can fall off of the short list of possible locations for a particular new investment.

Canada is fortunate to have been endowed with bountiful energy and mineral and agriculture/forestry. Many economies are deficient in one or more of these assets and must import; we are not. Canada is next to the world's largest market, the U.S., and we share cultural and social values that enhance our ability to access that market. Canada is a very solid resource upgrader and adds considerable value to basic resources, and in a supportive government policy environment we can do much more. To a considerable extent this is all about risk minimization; demonstrating less risk and higher potential for profitability for investors. Canada has the opportunity to be the world's best resource upgraders, both economically and environmentally. That is our vision and the premise for our submission.

CCPA, on behalf of its member companies provides the attached document "Business Chemistry Vision 2020" to place our comments that follow in perspective. Following is a short overview of the chemical sector and more detail about CCPA can be found on our public web site at www.ccpa.ca. We have provided our comments using headings and page references from the consultation paper "Sharpening Canada's Competitiveness Edge".

Canada's Chemical Industry

The global chemical industry comprises over $2.85 trillion in shipments and 40% of shipments are traded. Using World Trade Organization statistics, the chemical sector is second only to motor vehicles in value traded. The industry is located roughly 1/3 in each of Asia, Europe and the Americas. The industry is very diversified and no one company has more than 2% of global production. In recent years the growth of the industry has averaged just above global GDP, with most growth in emerging economies such as China with their associated growing markets and the Middle East which features inexpensive feedstocks or raw materials. The world's top ten chemical companies now includes a Chinese and a Saudi Arabian company with an Indian company in the top twenty. By comparison, Canada's largest chemical company ranks about number fifty. Of the largest chemical companies, 22 of the top 50 are present in Canada. The tremendous growth in markets in emerging economies has had a profound impact on global supply chains. CCPA members fully expect they will need to adjust to the production and sourcing realities of new supply chains and increasingly supply their products into a more diversified range of markets.

WE ARE CANADA'S CHEMICAL PRODUCERS

CCPA represents leading companies engaged in the business of chemistry. Member companies apply the science of chemistry to create innovative products and services that make people's lives better, healthier and safer. The business of chemistry is a $27 billion a year enterprise for CCPA's industrial chemical manufacturers through which they provide the basis for the broader $48 billion a year chemical and chemical products sector. The chemical industry is the fourth largest in the manufacturing sector, creating up to 300,000 direct and indirect jobs. The basic chemicals and resins sub-sector provides jobs with average salaries in excess of $63,000 per year. Our members are efficient converters of energy and add up to 10 times to the value of Canada's natural resources by upgrading natural gas, oil, electricity, biomass and minerals.

CCPA member companies are committed to improved environmental, health and safety performance and to social responsibility through Responsible Care – a Canadian invention, now practiced in 53 countries around the world. The Responsible Care ethic and codes of practice apply sustainable development throughout the lifecycle of chemicals. Further, our industry has worked to monitor, verify and publicly report our performance since 1992 and is firmly supporting sustainable development through initiatives to drive continuous improvement of social, economic and environmental corporate performance.

CCPA members export almost 80% of their production with close to 2/3 of exports destined for the US marketplace. Within Canada, the keystone chemical industry sector of the economy has strong supplier and customer linkages with other major sectors of the economy including: oil and gas extraction; petroleum refining; mining; forest products; metals; plastics; motor vehicles; telecommunications; computers and electronic products; electrical equipment; pharmaceuticals and food.

The Canadian chemical sector, with $48 billion in shipments represents a fairly small 1.6% of the global chemical industry and is ranked number 17. The chemical sector in a number of emerging countries is significantly larger than here (China has the world's second largest chemical industry after the U.S.; India, Brazil and Russia all have larger industries than Canada). When we compete within the global chemical company structures for investments, we are competing with locations in the Middle East, China, India, Brazil and the U.S., to name only a few. The technologies which will be employed in China or India in a new investment are the same technologies that are or would be employed here.

Canada has many of the key ingredients for growth in this sector. We have the feedstocks or raw materials (oil, gas, electricity, minerals), but so do some of our competitors (Middle East). We have proximity to market (the U.S.), but several of our competitors are markets themselves (China, India, Brazil). We have skilled workers and an efficient infrastructure; so do our competitors. What we have that is unique is all of these factors combined to a greater or lesser degree, while our key competitors may only have one or two out of three. But, to be clear, with only 1.6% of the global market and production, we are not on the radar screen of global investors unless we can present a very, very compelling case for Canada.

OUTWARD INVESTMENT BY CANADIANS (PAGE3)

CCPA has only one comment to make here. Government should focus on export-ready companies. Very small companies may not be ready to go international. Government should not push companies into export markets, or support export ventures for operations where failure can result in failure of the company. Choices need to be made within an appropriate balance of cost and risk.

Canada as a Destination for Investment and Opportunity (page 3)

CCPA agrees that governments have a role to play in establishing the conditions that will assure Canada's position as an attractive destination for investment. Here we raise several points:

1. All levels of government must work together. Federal, provincial and even municipal cooperation is essential and is not sufficient today. A key component will be federal and provincial governments working together effectively so potential investors (and companies already in Canada) face one set of regulations, not one federal and one provincial. One of the best examples of success has been the Work Place Hazardous Materials System (WHMIS) that was developed in the 1980's and has continued since then as a national system meeting both federal and provincial needs. In the past there have been relatively few problems of federal-provincial duplication in environment, health and safety regulation impeding the chemical industry however, that appears to be changing. The federal government seems to be overlooking provincial regimes that have done a good job in improving air quality as it develops its approach to clean air regulations. Ontario and British Columbia seem to be ignoring Canada's world leading Chemicals Management Plan and its underlying Canadian Environments Protection Act as they propose new toxic reduction legislation. If one order of government concludes more needs to be done then it should work with the other order of government and stakeholders as was done in developing WHMIS to arrive at a national approach instead of indulging in political one-upmanship that in the end will hurt both the economy and the environment.
2. Canada is a high tax jurisdiction. Our marginal effective tax rate is unacceptably high, and our regional rates in Ontario and Quebec in particular must be reduced. Canada's 'Brand 25' is a good first step and it requires the provinces to lower their corporate tax rate to 10 per cent or lower and Ontario to introduce sales tax harmonization and eliminate taxation of inputs to manufacturing. Capital taxes are being slowly eliminated and that should be accelerated. Personal taxes are also too high – investors look at these readily measurable factors and put heavy consideration on them in deciding which locations are on the short list for new investments. This is another area where greater federal-provincial collaboration is needed.
3. Excessive wealth redistribution will discourage investors. Being in the business of picking winners (programs) can result in governments funding a lot of losers. Investors can see this as a direct drain on profits.
4. Canada's collective regulatory process, to an outsider, is a mess. We must work more cooperatively, set firm timelines for coming to decisions and provide potential investors with a clear roadmap of what is expected from them and what will be delivered by governments. All regulators for a potential new investment should be able to meet with an investor early on to outline and commit to what should be expected by all parties.
5. Interprovincial barriers are real and make a difference to investors. The Alberta-B.C. model needs to be adopted across Canada. Mutual credentials recognition and full labour mobility is a must.

Globalization of Value Chains (page 6)

CCPA is concerned that some would want to see Canada developing as a post-industrial society. We disagree. Canada has a very significant manufacturing sector and the chemical manufacturers are working hard to locate Canadian manufacturing within global supply chains. We have significant advantages in Canada which should be seized. CCPA is of the view that Canada can choose to become a very efficient and prosperous resource upgrader. We can be a world leader in adding value to our oil, gas, mineral and bio-based assets efficiently. In many cases that will involve producing the higher value elements of global supply chains, and in many cases it will involve producing commodities. When combined increasingly with integrated services, this will represent a substantial contribution to supply chains. From an investor perspective, it must be at least as attractive to upgrade to value added products here in Canada for world markets as it is to export Canada's raw materials and import finished products. That is not to say we should discourage exports at any level of production, but we should certainly not have in place policies which preferentially support moving goods out of the country in a least-upgraded form.

Productivity Performance (page 7)

Labour productivity for basic chemicals and resins production was jointly assessed by CCPA and Industry Canada late in 2006 and Canada was found to be over 60% more productive than the same manufacturing group in the U.S. With the rapid appreciation of the Canadian dollar against the U.S. currency in 2007, some of that sizeable advantage has been eroded, but we believe that we are still at a productivity advantage. In the 90s we invested in newer, world-scale production facilities in several sub-sectors and it has made a difference. But we must continue to invest in the newest and best technologies, be on the cutting edge and be the best. New investment means more productive and cleaner technologies, and a more competitive sector. For manufacturing this means a two-year accelerated capital cost allowance for machinery and equipment, and it means keeping that CCA in place to allow for investment planning cycles on an ongoing basis.

Technology investment will also be the key to transforming the economy in a way that will be needed to address climate change. It makes sense to use payment to a fund to develop and implement that technology as one of the compliance mechanisms when greenhouse gas reductions do not meet targets. Alberta has incorporated a tech fund into their climate change plan. The federal government set out to do so, but ended up designing a fund that shrinks and disappears as a compliance tool by 2017 so that it is not a useful long term instrument for supporting technology, compliance or providing investment certainty. Moreover this design flaw makes it more difficult to harmonize the federal and Alberta funds thereby increasing company investment uncertainty. This problem needs to be addressed as a cornerstone of economic and environmental policy as climate change will continue to be an issue driving both in the foreseeable future.

Our sector needs to take advantage of access to feedstocks (our raw material is energy – oil, gas, electricity, biomass), state-of-the-art infrastructure and a skilled workforce second to none, and deliver a fully supportive policy environment that is nothing less than world class in regulatory efficiency, low taxes and low administrative burden. Investors will notice and they will come to Canada. A solid competitiveness case for profitable return on investment is the best 'commercialization policy' and more sustainable than targeted programs.

Competitiveness Ranking (page 8)

The comments on R&D here need context. Almost half of the world's 50 largest multinational chemical companies operate in Canada. This means that while Canada has only 1.6% of the world's chemical production, we can access most of technology developments in the sector, as long as we are an opportune place for commercializing, for making a profit. It is not R&D that drives commercialization investment, it is an attractive investment environment and potential for commercialization that will drive R&D, and in particular the D part of R&D.

The work and assessments of the World Economic Forum (WEF) and the Conference Board is somewhat subjective. For investors today, education and health and skilled workers are taken for granted. So are research institutions. For decades in our sector we in the chemical sector have supplied key executives around the world within global companies and benefited from their return to Canada.

If we are perceived as having high business costs, including high taxes, it is because investors have evaluated and found that to be the case. These need to be fixed first, then and only then can the Canadian Brand and Canada's specific investment advantages be advertised with credibility. We are not getting on the short list for investors because they look at Ontario and Quebec raising corporate taxes and they look at capital taxes and taxation of intermediates and very long and growing timelines for regulatory approvals as well as multi-jurisdictional, complex regulations and judge that we are not competitive and that we do not provide a predictable business environment. Investors require certainty. Governments will have to do more in these areas.

The "Hollowing-out" Debate (page 9)

The reality is that corporations, like governments have de-layered and moved to centralized decision-making around the world. With improvements in information technology it becomes incumbent on Canadian operations to get the information required to the decision-makers. The performance of global companies in Canada is good, often much better than (usually smaller) Canadian companies. This is strongly supported by the data provided in the Baldwin and Gellatly research paper "Global Links: Multinationals in Canada: An Overview of Research at Statistics Canada" released November, 2007. Making the case for growth is the issue. Loss of head office function and decision-making power, R&D and becoming a branch plant within a global structure is happening. To repeat, in the chemical sector we are 1.6% of the global business of chemistry. But we can grow at or above global demand for our products, as long as we make the case. Partnership between government and industry in developing a good case will be part of countering the globalization realities. Putting Canada's advantages out in the open are crucial, but there have to be advantages first, advertising second. Our taxation levels are not competitive; our regulatory burden and processes and multiple jurisdictions are not competitive; our congested border crossings and declining level of transportation services are not conducive to new incremental investments. The hollowing out debate masks getting our house in order. Even Canadian-headquartered multinationals can and do chose to move new investments offshore if we do not present a compelling case to invest here. If the Canadian-headquartered multinational can make a better profit on production in Chile, that company will and has invested in Chile. An investment should go where it can provide the best returns for an investor. But, where we have the resources and where we can demonstrate this is where the "best" return exists, it is incumbent on us to make our case.

Longer-term Trends (page 13)

Data must separate out mergers and acquisitions from net growth (or shrinkage) in production. Even dollar shipments can fail to address growth and shrinkage – we need to look at and measure actual production of value-added goods and measure how much value we are adding. Are we attracting new machinery and equipment or only repairing? Are we staying in a top quartile in productivity and profitability? Are we re-investing or only harvesting? Are we actively promoting value adding to our resource endowments? Are we integrated into global supply chains or only at the receiving or front ends? To assess and project long-term trends we need to better measure and analyze.

Looking Ahead (page 14)

Many of our operations in Canada report within global companies along product or functional lines into a regional structure. For example, a large chemical plant in Canada might report to a North American manager for that product or function (located in the U.S.), within a large multinational headquartered in Europe or Japan, or increasingly China, or Saudi Arabia or India. CCPA agrees that having a Canadian regional headquarters might provide the resources to make a better case for investing here. But that is not always an option. So we must make sure that companies operating in Canada have a visible and compelling set of micro-economic comparators that win investments because they clearly offer the best opportunity to make a profit, get established quickly, access a skilled work pool, demonstrate swift and efficient access to global markets for products and associated services. That means getting a policy environment right and all levels of government working together. It can also mean affording the opportunity to access raw materials to upgrade into value-added high value manufactured goods. The Panel should take a close look at the approaches in Alberta where an expressed value added strategy is linked to its resource industry and part of the mandate letter of, for example, its Energy Minister. It is not enough to say you are open for business; actions, measurable performance and predictability are what count.

INVESTMENT POLICIES – QUESTIONS (PAGE 19)

Here again CCPA will take a different approach and comment on only a narrow slice of the issue under review. Canada has a number of natural endowments and has choices with respect to those endowments. We can and should export basic products (energy, including oil, gas, electricity; minerals, bio-based materials). We can also strategically plan to move into more and more value added manufacturing through the policies and tax structures and infrastructure that are put in place. This is not about "requiring" or "mandating" but about policy environments that encourage or make a strong case for doing more manufacturing and upgrading here rather than elsewhere. A supportive tax and regulatory structure and infrastructure that offers a better return to investors the further down the upgrading path you go is a start. Policies which engender more capital formation and risk taking help. What doesn't help are taxing intermediates, capital taxes, lower capital cost allowances than alternative locations and higher overall marginal effective tax rates. This encourages upgrading elsewhere with Canada at the receiving end of global supply chains rather than being integrated within.

FORMAL BARRIERS (PAGE 27)

Canada's barriers to investors are the numbers on return on investment and perceived risks versus other jurisdictions. How do we measure up in making a profit here compared to China, India, U.S., anywhere? If you can make a better profit upgrading (Canadian) energy products and biomass into value-added chemicals elsewhere, then that is exactly what will happen. Canada is viewed as a small, open economy. The option of bringing product into Canada is always an alternative. To get on the radar screen of investors, we must be better than alternatives, not as good as. Being second is not an investment winning strategy, ever.

BECOMING A DESTINATION FOR TALENT, CAPITAL AND INNOVATION (PAGE 30)

Before government markets Canada's advantages as an investment location of choice and provides services for investors, let's be sure that we have advantages and that they are clear and compelling and that they are the advantages that matter to investors. One of our members has told us that the regulatory burden to get new plant permitting in place in Ontario is more onerous than in Germany. Another has been waiting over two years to get an approval to introduce a change in process to improve environmental performance. Word gets around pretty fast when you are doing something wrong. And it takes a long time to convince investors that the situation has really changed and will remain stable and predictable.

NATIONAL BEST PRACTICES (PAGE 31)

The Irish example is one that Canada might well consider following. It was a strategy, there was long-term commitment and there was no regional dissention; the whole jurisdiction worked together, firing on all cylinders to create and demonstrate sustainable advantage. The Australian example does not appear to be a strategy, it more resembles a hodge-podge mixture, heavy on programs and studies with multiple jurisdictions (sort of looks like Canada). In the Australia case, no branding sticks out, in contrast to the Irish case.

BECOMING A DESTINATION FOR TALENT, CAPITAL AND INNOVATION – QUESTIONS (PAGE 33)

Canada needs to be more competitive if we are to attract more investments and jobs. We should facilitate investing and make it more profitable to invest here. Canada frankly comes across as anti-growth. Look at the Irish model and look at what it offers to an outside investor in comparison. We need to leverage our assets: resources (people and materials) and access to the world's largest market.

The Canadian dollar's value is a reflection of the value of our natural endowments and specifically today, energy. If oil were $40 or $50 per barrel, our dollar would probably be significantly lower. We can be competitive at close to par, but we cannot have other competitiveness factors not in our favour. All levels of government need to work together on the factors we can influence to attract investors. Macro-economic factors are in pretty good shape; micro-economic factors still need some work.

What could be done in Canada to further promote Canadian competition, investment and productivity performance aimed at Canada's sustained competitiveness?

- Purpose to be the best upgrader of natural resources in the world, both economically and environmentally.
- Purpose to have the most efficient and predictable regulatory approvals process in the world – provinces and municipalities must be part of this.
- Purpose to have the lowest tax rate for resource upgrading and value added manufacturing of our resources in the world.
- Purpose to have the best infrastructure and trained workforce in the world.
- Purpose to have all levels of government present one common front i.e., "brand" to investors, to industries.

By building the right investment environment, by having a clear value added upgrading vision for our country and by working collaboratively at all levels we can render the issue of corporate headquarters irrelevant. Investment and expertise will come to Canada; commercialization and jobs will be the result.