Overcoming Barriers to Investment in Canada's Petrochemical (PC) Industry: Summary Draft

Purpose of Report
Gas Processing Management Inc. (GPMi) developed a report that surveys the competitiveness landscape for Canada’s petrochemical industry when compared to competing jurisdictions in the United States (U.S.) and identifying and analyzing policies and programs that best support future development of this industry in Canada.

Based on the research, the Government of Canada has a variety of potential options that can bolster growth and increase competitiveness in petrochemicals and value-added industries. Additionally, these findings are applicable to other energy sector developments and value-add industries such as oil refining and liquefied natural gas. Although Canada has a wealth of oil and natural gas resources, it has not yet realized investment opportunities in the petrochemicals industry due to increased risk and uncertainty for the industry.

Canada’s Economic Climate
Canada has historically averaged 10% of investment compared to the U.S., with Canada’s current petrochemical investments at $4 billion compared to a $235 billion in the U.S. This represents an opportunity loss of about $20 billion. In natural gas production, Canada has fallen behind significantly, as the U.S. has grown to become the world’s largest exporter and is currently undergoing a $185 billion expansion.

Traditional economic factors such as a skilled workforce, large feedstocks and public support for responsible industry development are no longer sufficient to attract investment, as competing jurisdictions, notably the U.S., also implement a variety of attractive incentives. A number of promising projects have been proposed in Canada but have not yet achieved fruition.

Economic Incentives
A variety of incentive approaches exist throughout the world to attract new investments into jurisdictions. Some mechanisms include, for example:

- Infrastructure funding (e.g. for power generation, roads, water treatment);
- Accelerated depreciation for certain kinds of manufacturing equipment;
- Investment tax credits;
- Royalty holidays and deferrals;
- Loans and grants;
- Loan guarantees; and
- Equity participation in projects.

Each of these incentives has advantages and disadvantages dependent on the specific projects to which they are applied. For example, accelerated depreciation is useful for encouraging facility expansions, whereas loan guarantees can be more effective for new developments.

Understanding the different advantages and disadvantages for specific projects and when and how to apply different incentives seems key to successfully implementing an incentive program.
Overcoming Barriers to Investment in Canada’s Petrochemical (PC) Industry: Summary Draft

U.S. jurisdictions aggressively attract investors by engaging in direct negotiations with project proponents resulting in customized incentive packages (e.g. the Texas Enterprise Fund).

Challenges to Investment in Canada

Although Canada has some important existing mechanisms, such as the Strategic Innovation Fund, it broadly lacks comparable suite of industrial development incentives, compared to U.S. jurisdictions. U.S. competitors benefit from customized incentive programs unique to each project, which include considerations of feedback costs, access to markets, low construction costs and labour costs. Consequently, the investment landscape has tilted significantly towards flexible U.S. jurisdictions.

Other important broad influences on investment in Canada include:

- Uncertain and potentially higher relative costs in Canada resulting from higher corporate taxes, high power prices, lengthy regulatory processes and high construction costs;
- Market access constrained by pipeline, rail and port issues; and
- Carbon taxes that can add costs and that can lead to a competitive disadvantage on the world-market for industries operating in Canada. Further, the uncertainty regarding these taxes cultivates risk and potentially rising costs, especially for many energy intensive projects related to petrochemical and value-add industries.

Potential Solutions

With an abundance of resources, knowledge and existing infrastructure, some potential approaches that Canada could pursue to foster an attractive investment environment for its petrochemicals sector include the following:

- Creating long term, flexible and customizable incentive programs to attract industrial investments. This incentive program could leverage a combination of instruments, such as tax waivers and credits, Accelerated Capital Cost Allowances (ACCA), loan guarantees, infrastructure funds, etc.
- Maintaining and improving Canada industry’s competitiveness on taxes and costs by working with the provinces and territories;
- Improving market access for Canada’s energy and value added products generally (e.g. exports of Liquified Natural Gas).

Through coordinated collaboration, federal, provincial and territorial governments can jointly develop long-term strategies for creating a competitive investment climate that will lead to significant advantages when competing for major capital investments.

Implementation of a customized approach, beyond specific funding mechanisms, entails a new collaborative model between government and project proponents. This includes building a high level of skills within the federal government to determine what mechanisms could work to reduce industry costs for operating in Canada, in collaboration with provinces.