September 8, 2023

Deputy Prime Minister Freeland, PC, MP
80 Wellington Street
Ottawa, Ontario
K1A 0A3

Re: CME's comments on Budget 2023 measures to grow the clean economy, close tax loopholes, and deliver tax relief for Canadians

On behalf of Canadian Manufacturers & Exporters (CME) and our member companies from across Canada, we are pleased to provide our comments with you on Budget 2023 measures to grow the clean economy, close existing tax loopholes, and deliver tax relief for Canadians.

Measures to Grow the Clean Economy

Canadian manufacturers are fully committed to creating a clean and healthy environment for all. We believe that industry can and should produce goods in the most environmentally friendly manner while meeting the highest global standards. The commitment from Canada's industrial producers to reaching net-zero emissions by 2050 is sincere. That is why CME continues to call for government support and partnerships to drive the monumental investments that will be required to successfully achieve this transition.

Some consider the race to build the clean economy to be one of the most significant economic transformations since the Industrial Revolution. Many countries, including the US with the Inflation Reduction Act (IRA), have taken the lead by providing domestic manufacturers with generous incentives to build renewable hardware. The landmark US climate law required a strong response from the federal government to address the imbalance in incentives and, accordingly, it became a key focus of Budget 2023.

While CME and its members welcomed and supported the initial steps taken in Budget 2023 to respond to the IRA, what is on offer does not fully match the US incentives and the roll out has been slow. As a result, Canada's manufacturing sector remains at risk of being left behind in the race for clean jobs and investment. In fact, while the US is in the midst of a factory-building boom, with the IRA driving private manufacturing construction to record highs, manufacturing investment in Canada is climbing at a much more moderate pace. In a single year, the IRA spurred $110 billion in clean energy manufacturing investments and created more than 170,000 new clean energy jobs.

Still, the CME fully supports the government's creation of a competitive suite of investment tax credits (ITCs) to adopt low-carbon technology, de-risk investment, grow manufacturing output and incentivize the domestic production of critical inputs and minerals. To maximize the impact of those credits and to ensure they are competitive with what is being offered by other countries like the US, they need to be easy to understand, stackable with other government (federal and sub-federal) grants and supports, non-taxable, and available to non-taxable entities. As well, the ITCs need to be designed in a way that maximizes eligibility and provides long-term certainty. In particular, the government should seek to make applicability wide-ranging in order to capture and incentivise all eligible equipment involved in the clean technology supply chain. Moreover, extending some credits (especially the Clean Electricity and the Clean Technology Manufacturing ITCs) to account for the long development window for several key assets, such as new nuclear and hydro electricity generation or mining developments, would be a tremendous boon for this initiative.

It bears stressing that Canadian and American manufacturing is highly interconnected. With NAFTA and now CUSMA, our industries have spent three decades eliminating international boundaries to reap the benefits of our substantial combined market and production capacity. Therefore, Canadian manufacturing is highly sensitive to US industrial investment incentives of any kind. Matching US policy is necessary to create an even playing field between the two jurisdictions and to avoid capital and investment flight from Canada into the US.

As such, the CME proposes the following recommendations to enhance the ITCs announced in Budget 2023:

Carbon Capture, Utilization and Storage (CCUS) Investment Tax Credit

1. Enable broader ITC eligibility that is not equipment specific (i.e., remove the word "solely" and the conditions associated with it) so long as carbon is captured, utilized, or stored.
2. For CCUS projects that involve multiple parties (i.e., carbon emissions/capture by one party, utilization/sequestration by another party) and phased implementation timelines, ensure ITC eligibility for each party once equipment is installed.
3. In the future, where operating CCUS projects receiving ITCs are able to change to lower carbon emitting technologies (i.e.H2, other), ensure that such changeover is supported and without penalty (retroactive or otherwise).
4. Clarify the knowledge sharing and reporting requirements and ensure that intellectual property is safeguarded.
5. Ensure that non-taxable entities are eligible for this credit, thus reducing concerns about including Indigenous partners in projects.

Clean Technology Investment Tax Credit

1. Include equipment intended to produce zero-carbon aluminum by a process that eliminates substantially all the greenhouse gases (GHGs) resulting directly from the electrolysis of alumina, as aluminum is a significant input for zero-emission vehicles and batteries.

2. Define eligible properties and expenditures related to construction, intellectual property (IP), training, installation, and integration.
3. Expand eligibility to include expenditures associated with design and engineering studies.
4. Expand eligibility to include Class 55 electric vehicles, a category of vehicles that are an integral part of the transportation sector's transition to net zero.
5. Ensure that mixed-use facilities that produce both carbon-emitting and zero-emitting products are eligible for the tax credit.
6. Include tax credits for electricity generated via combined heat and power systems that utilize forest biomass residuals, alongside credits for solar photovoltaic, small modular nuclear reactors, concentrated solar, wind, and water.
7. Provide tax credit incentives for industrial facilities that use self-generated low-carbon heat from forest biomass to heat their buildings or for forest biomass district heating systems, in addition to active solar heating, air-source and ground-source heat pumps.
8. Add renewable natural gas (RNG) to the list of renewable energies that are eligible for this credit.
9. Incent lessees to invest in clean technology by altering rules relating to leased property which heavily benefit the leasing company.
10. Adjust re-capture rules to not penalize business making an investment into an eligible capital asset with a useful life of less than 20 years.

Clean Technology Manufacturing Investment Tax Credit

1. Include mining development costs to meaningfully incentivize extraction projects within Canada. As such, eligibility should be clarified to include all activities and ancillary activities related to the accessing, reconditioning, and recovering of ore bodies and mineral waste recovery (including tailing and slags) of the identified critical minerals.
2. Proactively involve manufacturing employers in any future discussion of ITC eligibility to ensure design preserves cost competitiveness and accounts for the operational reality of a sector still suffering from labour shortages, especially in the skilled trades.
3. Expand eligibility to include the production of recycled materials to promote the circular economy.
4. Ensure that eligible asset classes include more than just the traditional manufacturing and processing equipment:
    - Buildings: Include all building additions/supporting infrastructure (retrofits or new construction) required to enable clean technology manufacturing.
    - Hardware and software: Include Class 10 hardware and software.
    - Tooling: Include all Class 12 additions made in support of clean technology manufacturing (inclusive of containers and regardless of physical location provided the tooling is in support of an eligible activity in Canada).

- Zero-emission automotive equipment and vehicles (other than motor vehicles): Include Class 56 zero-emission automotive equipment to cover vehicles like forklifts.

Clean Electricity Investment Tax Credit

1. Expand credit to include both intra- and interprovincial transmission projects and made available on the capital cost of eligible investments.
2. Independent power producers – with a stated carbon-neutrality commitment by 2050 – investing in renewable and/or non-emitting electricity projects for which they themselves will consume all the power generated should be deemed to meet the proposed commitments to lower electricity bills and achieve a net-zero electricity sector by 2035.

Labour Requirements Related to Certain Investment Tax Credits

1. Clarify language around wage requirements and how they will be subsequently calculated.
2. Include the evaluation of the manufacturer on a 'best efforts' basis to fill positions as part of the Apprenticeship Initiative.
3. Include fast tracking of permanent residency permits for foreign workers to retain talent in areas where positions cannot be filled by Canadian personnel.
4. Provide flexibility for companies working on a project with Indigenous partners to access the highest level of the ITCs to companies, even if the labour requirements cannot be met. Similarly, project partners should have access to the highest tax credit refund if they can prove that a significant part of the funds will flow through to the Indigenous partners involved in the project.

The policy actions taken so far by the government, including the proposed ITCs, are critical first steps in helping Canadian industry remain competitive in the race to build the clean economy. Global demand for clean technology products is set to increase sharply in the coming years. With the right supportive framework, Canadian clean technology manufacturers would be in a prime position to capture more than its fair share of this global demand, creating made-in-Canada technology that will help drive down global emissions. CME and our members look forward to continuing to work with the government on addressing the current gaps in Canada's climate change policy.

Luxury Items Tax

CME and its affected members would also like to use the opportunity of the Budget 2023 consultation to ask the government once again to address the damaging impact of the luxury tax on the Canadian aerospace industry. Indeed, a recent study found that the luxury tax has led to a staggering loss of $1.1 billion in revenues for the aerospace industry, implying that the foregone GST revenue arising from the tax is greater than its five-year revenue projection. Moreover, this tax is anticipated to result in the loss of at least 3,800 direct jobs in the Canadian aerospace industry within the first two years of its introduction.

To reduce the damaging impact of the luxury items tax, CME urges the government to amend the business usage threshold from the current 90 per cent to 50 per cent. This adjustment would align the luxury tax with established primary use tests in other Canadian tax legislation, ensuring fairness and consistency across tax policies.

CME would be delighted to convene groups of concerned members for officials to go through the more technical considerations that are required to craft the final legislation. Please do not hesitate to contact us if we can be of further assistance on this or any other issue.

Sincerely,

Alan Arcand

Alan Arcand
Chief Economist, National Policy
Canadian Manufacturers & Exporters