

February 5, 2024

Mr. Miodrag Jovanovic
Assistant Deputy Minister
Tax Policy Branch
Department of Finance Canada

Re: CME's comments on Government of Canada's consultation on the major investment tax credits.

On behalf of Canadian Manufacturers & Exporters (CME) and our member companies from across Canada, we are pleased to provide our comments with you on the draft legislation recently released for two of the major investment tax credits as part of the collective effort to build an economy that works for all Canadians.

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 is not as robust as US incentives and the roll out has been too 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.

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, they need to be easy to understand, stackable with provincial credits, and provide certainty for the long-term, in alignment with what is offered by our main global competitors (especially the US). The government should

also seek to make applicability wide-ranging to capture and incentivise all eligible equipment involved in the clean technology supply chain.

As such, the CME proposes the following recommendations to enhance the proposed legislations:

1. Clean Technology Manufacturing Investment Tax Credit

1. In order to have a reliable, sustainable, and affordable electricity system, an additional amendment to expand the definition of ‘qualified zero-emission technology manufacturing activities’ to include grid equipment and ZEV manufacturing assets is necessary.
2. Revise the timing of acquisition to allow a taxpayer in the clean technology manufacturing field to reduce the cost of their substantial investment by realizing the tax credit sooner rather than the minimum 4 years required for property to become available for use.
3. Provide an exception to the recapture rule in situations where the disposed asset is replaced with another asset for the same or similar use.
4. Amend the definition of ‘small modular reactors’ to include a limit not based on its electricity generating capacity in megawatts (MWe) but rather be based on thermal energy.
5. In order to promote innovation and changes in technology, the requirement that all SMR modules be factory assembled and transported pre-built to the installation site should be removed.
6. Comprehensively identify which agreements are subject to the definition of excluded property to ease concerns for taxpayers that their claim will not be refused should they receive government assistance.
7. Update legislation to include language that makes certain that the ITC cannot be repealed for projects already in progress and funding will continue until 2035.

2. Clean Hydrogen Investment Tax Credit

1. Expand the definition of eligible power purchase agreement to include those sourced from hydro, solar, wind, tidal, nuclear, geothermal, or other non-emitting generation.
2. Clarify partnership rules, particularly around ‘at-risk capital’, to prevent narrow interpretations that may disincentivize deployment of capital to decarbonize Canada’s economy.
3. Allow non-taxable entities such as Indigenous organizations to be eligible to access the clean hydrogen ITC to advance reconciliation efforts and facilitate greater investment opportunities in remote areas.

4. To ensure fair treatment, the proposed legislation should allow access to additional ITCs when the actual carbon intensity of hydrogen produced is lesser than the expected carbon intensity that was used to determine the clean hydrogen tax credit.

The policy actions taken so far by the government, including the proposed ITCs and their draft legislation, are critical 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 and a significantly increased pace of action, 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.

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,

Haroun Mansuar

Haroun Mansuar

Manager, Environmental and Energy Policy

Canadian Manufacturers & Exporters