RESPONSE OF THE FEDERAL GOVERNMENT TO THE RECOMMENDATIONS OF THE CONSULTATIVE TASK FORCE ON

THE CANADIAN PETROCHEMICAL INDUSTRY

Government of Canada / Gouvernement du Canada

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INTRODUCTION

In February 1978, Canada's First Ministers initiated a process of private sector consultations on measures to improve the performance of, and the outlook for, the manufacturing, construction and tourism sectors in the Canadian economy. Twenty-three industry task forces composed of representatives of management, labour and the academic community were formed. Provincial government representatives also participated. By August 1978, each task force had completed a series of meetings and submitted a report reflecting conditions in their industry to the Federal and Provincial Ministers of Industry and to the public. These reports covered a broad range of themes and the recommendations contained in them are viewed by the federal government as important elements in the development of future industrial policies.

Following the work of the industry sector task forces, an Overview Committee was established consisting of five representatives from the Canadian Labour Congress, five from the business community, one from the academic community and a chairman from the private sector. This group worked from the task force reports, identified common viewpoints, and presented policy recommendations applicable both to the economy generally and to specific industries. The Overview Committee presented its report to Governments in October 1978.

In reviewing the prospects for industrial growth over the next number of years, the reports prepared by the industry task forces and the Overview Committee addressed two objectives in particular. The first, was to improve the competitiveness and productivity of Canadian industry. The second was to create long-term employment.

In assessing these reports, and the Government's responses, a number of themes emerge which are of particular importance and which might be viewed as providing a framework for the recommendations of business and labour as well as the responses of the federal government. These themes focus on measures to increase industrial competitiveness, especially by building on comparative advantage, the support of regional economic development goals and the enhancement of Government, business and labour co-operation.

While the substance of what has emerged from the task force and Overview Committee reports is of utmost importance, the Government believes that the emerging process of Government/private sector consultation is of equal value. In this regard, the federal government views the results of these consultations as a significant framework for evaluating existing policies and programs and for designing new ones.

As part of its commitment to the consultative process, the Government has undertaken to respond to the recommendations of each of the 23 task forces and to those of the Overview Committee. An initial Government response was released in November 1978 entitled "Action for Industrial Growth - A First Response". A specific response to the task force recommendations with respect to taxation measures was included in the Budget Papers of November 16, 1978. On February 21, 1979, the Government released its response to the 46 recommendations made by the Overview Committee. The Government agreed with and outlined measures in relation to the overwhelming majority of these recommendations. This document, Response of the Federal Government to the Recommendations of the Consultative Task Force on the Canadian Petrochemical Industry, constitutes one of the 23 detailed federal government responses paralleling the task force reports and should be viewed as part of the ongoing consultative process.

It is recognized that the implementation of policy initiatives indicated in these responses will, in many cases, take some time and that a few other policy issues have yet to be fully addressed. The Government will, therefore, be continuing to respond to the industry task force reports. The Government also believes that continuing consultations between business, labour and Government on specific industry sector problems are a vital part of this further work. Finally, the Government recognized that in responding to the recommendations, not all participants of each task force will be satisfied. In a number of instances, dissenting reports were submitted along with or after completion of the task force report. The Government is committed to addressing all recommendations contained in these reports.

PART I

GOVERNMENT RESPONSE TO TASK FORCE RECOMMENDATIONS - AN OVERVIEW

The objective of the Task Force on the Canadian Petrochemical Industry was to formulate recommendations leading:

- initially to an industry with an adequate level of profitability at international costs; and

- subsequently to an industry which would be in a position to utilize Canada's strong hydrocarbon resource base to achieve a continuing, positive balance of trade in petrochemicals.

To assist the industry in the achievement of these objectives, it made recommendations covering three broad issues: cost competitiveness, capacity utilization and marketing, and the role of government. In the area of cost competitiveness, the recommendations of the task force were aimed at: a) achieving lower capital costs by improving construction labour productivity, reducing the Canada/U.S. construction compensation differential and lowering the costs of the materials used in construction; b) obtaining feedstocks at costs that do not exceed those on the U.S. Gulf Coast; and c) obtaining a competitive tax environment that would compensate for existing cost disadvantages. To obtain greater utilization of capacity, the task force proposed that under certain conditions the Government should pursue a free trade arrangement with the United States, proposed improvements in anti-dumping administration and measures to achieve healthy downstream industries. The task force sought to reduce the role of Governments through reductions in the costs of regulation, changes to competition policy legislation to facilitate rationalization and non-subsidization of new investment in petrochemical capacity.

The federal government is fully aware of the importance of a strong and viable petrochemical industry for the achievement of Canada's social and economic development goals. It is recognized as a high technology, capital intensive industry which makes an important contribution to the upgrading of Canadian resources into products which are utilized directly or indirectly by nearly all other industries.

In response to the task force's recommendations, the Government recognizes the importance of the initial cost of facilities and is in agreement with recommendations that would improve productivity in construction projects. The Government is developing means of giving greater emphasis to industrial training and of increasing the flexibility of the Canada Manpower Mobility Program. The Government is prepared to work toward achieving competitive compensation levels between industries in Canada and the United States as well as in the private and public sectors in Canada. Tax measures affecting capital costs have been provided that help offset some of the cost differentials which Canadian industry experiences.

In response to the recommendations regarding reduced regulations, the Government supports the principle that the affected parties should be consulted when new regulations are established. The co-ordination and duplication of programs are of great concern to the federal and provincial governments. In November, the Federal and Provincial First Ministers established a high priority for measures to reduce the duplication of services and, currently, the federal and provincial governments are identifying areas where duplication could be eliminated. The federal government is prepared to work closely with the provinces to ensure proper co-ordination of effort and to reduce the cost burden that Government imposes on industry.

The Government agrees with the desire to achieve healthy downstream industries and supports the objective of improving anti-dumping administration. The Government also supports the principle of no subsidies for petrochemical investment. It has reaffirmed its belief that the principal actors in the Canadian economy must be the individual firm and its labour force and that the route to economic prosperity is via the market system. It has also endorsed the principle that the stimulation of economic growth and job creation are among Canada's first priorities, and to achieve these it is important to foster an environment of understanding in which more effective consultation can take place among labour, business and Government.

While the Government was able to agree with some recommendations related to taxation, including requests for an increase in the investment tax credit, certain recommendations have not been acted upon. The Government is of the view that the present tax structure already compares favourably to that in the United States and makes an important contribution to the relative competitiveness of industry in Canada. It considers that an effective means of adjusting income for the impact of inflation had not yet received the degree of support necessary for adoption. The Government considered it necessary to amend the tax treatment of income debentures and term preferred shares.

A group of recommendations for which a response is pending includes the question of obtaining competitively priced feedstocks. A study of the implication of energy pricing on industrial competitiveness has been initiated by the Departments of Industry, Trade and Commerce and Energy, Mines and Resources. Studies are also underway regarding possible changes to equipment tariffs and amendments to combines legislation. The Government has carefully considered the views of the task force in formulating its GATT negotiating position and the results of these negotiations should be available shortly.

In a number of cases the views of the labour representatives on the task force were at variance with those of the industry representatives. These views were noted in the task force recommendations and have been taken into account in developing a government response.

The individual recommendations of the task force and the Government's responses to them are provided on the following pages.

PART II

DETAILED RESPONSE TO TASK FORCE RECOMMENDATIONS

INITIAL COST OF FACILITIES AND WORKING CAPITAL

1. Recommendation

Endorses the recommendations of the Consultative Task Force on the Construction Industry with respect to construction productivity, labour education and mobility.

The Oil Chemical and Atomic Workers International Union (O.C.A.W.) representative added that provincial governments should establish uniform qualifications and standards and work towards interchangeability of workers between provinces.

Government Response (Agree)

The Government provides extensive apprenticeship training support ($83 million in 1978-79 for classroom training and income support) and is exploring the means by which greater emphasis can be given to on-site industrial training. In particular it is developing proposals for $20 million for Critical Trade Skills Training which will concentrate on increasing training in key high-level blue-collar skills, and is also channelling a further $20 million into the Canada Manpower Industrial Training Program.

The Canada Employment and Immigration Commission (CEIC) will also investigate ways in which funding for apprenticeship programs may be used to address particular problems, such as maintaining apprenticeship levels during periods of economic slack, and is prepared to explore with management and labour means of obtaining greater private sector participation in skill training.

Tradesmen's qualifications, labour training standards and proficiency requirements are provincial responsibilities. Nevertheless, federal and provincial Ministers of Industry have urged the First Ministers to address the need for greater harmonization of labour legislation and trade certification practices across Canada and to direct that specific initiatives be undertaken to this end. In this connection, through the interprovincial "Red Seal" program there is co-ordination of provincial certification standards in many trades. The federal government is strongly in favour of increased labour mobility in Canada.

The joint industry-labour Task Force on Construction Mobility, announced by the Minister of Employment and Immigration on September 26, 1978, was established to examine ways of ensuring that qualified Canadian construction workers will be available when and where needed. The federal government strongly supports the mandate of this task force, which is to make recommendations to labour, industry and governments on strategies to encourage greater mobility in the construction industry. The Government awaits these recommendations with great interest.

2. Recommendation

Recommends that Governments as major users of construction services become more active in Owner-Client Councils, and that such Councils should become more involved in matters such as the following:

- forecasting of labour supply and demand,

- training programs for construction management, supervisors and foremen,

- training programs for construction trades,

- advising on labour legislation as it affects construction,

- improving communications among labour, contractors, Government and owners, as well as the public,

- counselling on the organization for and the process followed in construction labour relations,

- assessing matters concerned with productivity and efficiency in the construction industry.

Government Response (Agree in principle)

The participation of the Government in Owner-Client Councils may require further attention. Government input is now channelled through a variety of sector consultative committees and industry advisory groups such as the Construction Industry Development Council which is composed of industry, labour and government representatives. Many of the specific areas mentioned have been raised by other sector task forces and the mechanisms for addressing these issues are under review.

With regard to specific activities, the federal government strongly endorses an increased private sector role in manpower planning and training programs. For instance, the CEIC supports a strong sectoral approach in the identification of training requirements, and is prepared to participate with sectoral groups in the identification of sectoral training needs, programs and policies.

On a more general level, the federal government has created a multipartite National Advisory Council, which includes extensive private sector participation, to advise the Minister of Employment and Immigration on the formulation of labour market policies and programs. With regard to labour relations issues, the Minister of Labour is prepared, at the request of the parties, to assist them in establishing some appropriate consultative body to consider matters such as those raised in the recommendations.

3. Recommendation

The federal government publicize construction labour compensation in Canada and the U.S. in order to increase public awareness of the degree to which Canada is non-competitive.

Government Response (Agree in principle)

The Departments of Labour, Finance, and Statistics Canada, in consultation with the Economic Council and interested departments will devise a mechanism to permit the improved collection, analysis and publication of compensation trends, disaggregated by industry sectors, as a means of enabling comparability of such trends across sectors and with similar trends in the United States, and report as soon as possible. The Government is aware of labour's concern of the comparability of such data and will ensure that any publications address this issue. It is already the practice of the federal government to publish all wage settlements negotiated under collective bargaining in the public sector.

4. Recommendation

Public Service wages and benefits be related to those of the private sector as described in the proposed amendments of the Public Service Staff Relations Act.

Government Response (Agree)

The Government has introduced legislation which would link compensation levels in the public sector with those of the private sector. This legislation is intended to not only ensure equivalence in private and public sector wages, but also to protect public sector wages from lagging behind the private sector in a way which would be disadvantageous to public servants. In defining wage settlements in the public sector the Government will continue to rely primarily on collective bargaining.

5. Recommendation

The right to strike in essential services be limited. Such strikes have a disproportionate effect on the economy in terms of disrupting the effective conduct of business. Because of their effect on the economy, these strikes have the potential to lead to wage settlements that are unreasonable. Furthermore, such settlements become the standards against which other organizations establish demands and measure their success in bargaining. The task force recognizes the difficulty in defining essential services but endorses the definition and practice as contained in the Alberta Labour Act.

These strikes are defined as those in which unreasonable hardship is being caused or is likely to be caused to persons who are not parties to the dispute. It is recognized that withdrawal of the right to strike carries with it an obligation to ensure that wages and benefits in these sectors are kept in line with those of non-essential industries.

The O.C.A.W. representative did not support the recommendation to limit the right to strike in essential services but did allow that the "wealth consuming elements of society" should be a part of a strategy wherein their wages and benefits could be tied to those of the private sector. He added that unions should not bear the brunt of Government inadequacies at the bargaining table.

Government Response (Agree in part)

The federal government has been following a policy of examining the effects of individual public sector strikes to determine whether there is need for Government intervention to limit a particular strike in the public interest.

6. Recommendation

Process equipment be made eligible for duty remission under the Machinery Program administered by the Department of Industry, Trade and Commerce.

Government Response (Under review)

The Government was reviewing the possibility of expanding the machinery program concept to additional areas in the Customs Tariff, namely, engines and boilers; mining, drilling and smelting equipment; and oil and gas drilling, refining and transmission equipment. In light of the task force report, this review has been expanded to equipment tariff items of interest to the chemical industry.

7. Recommendation

Federal and provincial sales tax on material and equipment used in the construction of manufacturing facilities be remitted.

Government Response (Disagree)

For several years construction equipment has been exempt from federal sales tax. With regard to construction materials, the Government does not agree with the recommendation to exempt these from the tax. However, the sales tax rate has been reduced from 12 to five per cent. A further reduction in the sales tax on construction materials would reduce the size of tax reductions which could be made available to the economy in general.

Elimination of the sales tax on building materials would affect both residential and non-residential construction. The Government does not believe, of necessity, that additional tax stimulus to the housing sector, at the expense of other sectors, is appropriate at this time. The enrichment and extension of the investment tax credit in the November 16 Budget acts to lower the costs of investments in non-residential buildings and other structures, in much the same way as would a reduction in commodity taxes. The proposed changes to the investment tax credit have the additional desirable feature of applying to investments in machinery and equipment.

FEEDSTOCKS AND ENERGY COSTS

8. Recommendation

Canada should take an aggressive, growth-oriented approach to the use of its relatively strong energy supply position to develop internationally competitive, high value-added secondary manufacturing industries in Canada.

9. Recommendation

An immediate joint industry/government study should be made of the implications of a lower than average U.S. cost for oil and gas for Canadian manufacturing industries. In particular, this should apply to those industries which convert these resources to other products rather than burning them.

10. Recommendation

As a minimum position, the Canadian government should ensure that the cost of feedstocks and energy used in the manufacture of petrochemicals does not exceed the costs on the U.S. Gulf Coast. This comparison should be related to the prevailing price of crude oil delivered to Toronto, including all levies, and the average price of crude oil at the U.S. Gulf Coast. At no time should the cost of natural gas used for the production of petrochemicals exceed the equivalent cost of crude oil on an energy basis measured at Toronto city gate.

11. Recommendation

Provision of energy and feedstock costs to the manufacturing sector or the petrochemical sector at U.S. Gulf Coast equivalency or below should be achieved by the reduction of governments' take and not at the expense of funds available for private sector energy development.

Government Response (8, 9, 10, 11 - Under review)

The federal government reaffirms that in the course of increasing Canadian energy prices towards international levels, its intention is to pursue a policy whereby Canadian oil and gas prices would not exceed those in the U.S.

As a result of task force recommendations the Departments of Energy, Mines and Resources and Industry, Trade and Commerce have undertaken a study of the implications of the relative pricing of oil and gas in Canada and the U.S. for industrial development in Canada.

12. Recommendation

Excess petroleum refining capacity in eastern Canada severely limits the market for hydrocarbon by-products co-produced by the petrochemical industry located in Quebec and Ontario. Certain petroleum companies in co-operation with the Canadian government are currently seeking U.S. domestic status for Canadian refineries so as to utilize this excess capacity to economically supply a growing U.S. demand.

The task force supports this joint approach by the Canadian government and the Canadian petroleum industry. It is recommended that negotiations be extended to include domestic refineries processing Canadian crude oil.

The O.C.A.W. representative opposes any export of Canada's indigenous resources.

Government Response (Under review)

The Government is studying possible solutions to the excess refinery capacity problem in Eastern Canada.

The Government believes that the export of natural resources is a matter which requires careful assessment. In the energy field, this matter is under continued in-depth review in which Canada's long-term requirements for the resources are taken into due consideration. Canadian energy export policy represents a practical balance between the short and long-term benefits of such exports to our national economy.

13. Recommendation

A data base for monitoring the prices of feedstocks and energy on an ongoing basis should be established and agreed upon by the petrochemical industry and the federal government.

Government Response (Agree)

Officials of the Department of Energy, Mines and Resources have agreed to discuss their data base with representatives of the petrochemical industry.

TAXATION ENVIRONMENT

14. Recommendation

The 50 per cent capital cost allowance for process equipment should be continued indefinitely.

Government Response (Agree)

The accelerated capital cost allowance for manufacturing and processing equipment has been extended indefinitely.

15. Recommendation

An investment tax credit of 15 per cent should be implemented to replace the existing investment tax credit of five to 10 per cent at least until the cost disadvantages subject to correction can be reduced.

Government Response (Agree in part)

As noted in the response to the Sectoral Task Forces contained in the November 16 Budget Papers, the provision of adequate incentives for investment has been a cornerstone of recent budgetary policy. Deductions for capital cost allowance and the investment tax credit combine to provide an attractive environment in which to undertake modernization and expansion. The budget has responded to the recommendation with the permanent extension and enhancement of the investment tax credit. The basic credit rate has been raised from five to seven per cent, with a rate of 10 per cent in most DREE regions, and 20 per cent in the Atlantic Provinces and the Gaspé.

The tax system as a whole provides an advantageous level of taxation for corporations engaged in manufacturing and processing in Canada when compared to the United States. A good case can be made for directly attacking any cost differentials that remain.

16. Recommendation

The investment base used for the calculation of capital cost allowances should not be reduced by the amount of the investment tax credit.

Government Response (Disagree)

A general principle in the tax system is that deductions are related to the actual cost to the taxpayer. The current structure of the investment tax credit is consistent with that principle. The credit is analogous to the effect of a reduction in the price of eligible assets by the amount of the credit.

As noted in the response to the Sectoral Task Forces contained in the November 16 Budget Papers, the reduction of the capital cost base is desirable in order to provide for a neutral treatment between longer- and shorter-lived assets. In the United States, where the credit is not deducted from the capital cost allowance base, a similar result is achieved by giving only partial credits to assets with a life of less than seven years. It is the Government's view that the more appropriate method of enhancing the value of the credit is through increasing the credit rates directly, as proposed in the recent budget.

17. Recommendation

Companies should be allowed to carry forward any unused portion of the investment tax credit until totally used.

Government Response (Disagree)

In the Budget Papers of November 16, the Government responded to this recommendation and others of a similar nature as follows:

"Business losses and the investment tax credit may be carried forward to reduce tax for up to five years. Given the discretion in timing available to taxpayers in claiming capital cost allowances, this provides for full utilization of the amounts in all but exceptional circumstances. Many sectors, in arguing for extension of the carry-forward, referred to the United States, where the period is seven years. However, it should be noted that in that country CCA must be claimed in full in each year, giving taxpayers significantly less flexibility in the claiming of deductions.

The five-year time period in Canada matches the period for tax reassessments. To change the connection among the two types of carry-forwards and the reassessment period would entail considerable administrative difficulties for taxpayers and taxation authorities, without significantly aiding many taxpayers."

18. Recommendation

The existing methods available to assist a new company with its initial financing problems such as income debentures and preferred shares be maintained.

Government Response (Disagree)

The November 1978 Budget announced changes in the tax treatment of income bonds or debentures and term or retractable preferred shares. The supplementary information included in the Budget Papers indicated that:

"These types of securities have been considered for tax purposes as equity investments, although they are essentially debt obligations. As a result, income earned by banks and other financial institutions on such securities is received as tax free dividends rather than as fully taxable interest.

Increasingly, these types of securities have been used instead of traditional debt financing, principally for major loans by chartered banks to large corporations. The annual cost of this favourable tax treatment to federal and provincial treasuries has increased to an estimated $500 million. This form of financing is growing rapidly and so the revenue loss is increasing.

To allow the present favourable tax treatment to continue would mean that the revenue loss involved would have to be made up by higher taxes on individuals and on the large majority of other Canadian businesses not in a position to take advantage of such securities."

19. Recommendation

A study be carried out to determine an equitable method whereby the benefits of capital cost allowances and investment tax credits available to existing companies could be made available to new companies.

The task force emphasizes its belief that the principle of rewarding excellence or success should be maintained and that if such a method is implemented, it should not confer an advantage on new companies over existing companies.

The O.C.A.W. representative maintained that Governments should secure equity participation in return for increased tax advantages provided to companies.

Government Response (Under review)

Tax measures such as credits for investment or write-offs of capital cost allowances need not be claimable immediately, either because the firm has no income or because their value exceeds the tax otherwise payable. Amounts that are not claimable in a year, as well as any business losses, may be carried forward to reduce tax in future years. When they are used, incentives confer benefits to firms that would not otherwise have been available. It would not be desirable to discriminate by refunding tax incentives only to certain sectors or certain types of firms.

Any general move to permit firms without taxable revenues to receive immediately the benefits of unclaimed CCA, tax credits, or business losses would require significant changes to the tax system, would undoubtedly be complex and would result in a large reduction of federal revenues. This revenue loss would have to be made up by higher revenues from other taxpayers. For these reasons the Government has not moved in this direction.

It is recognized that if a system of consolidated tax returns were to be adopted, any unused tax deductions applying to part of an operation could be offset against income elsewhere. As the Minister of Finance noted in his Budget Papers the system of consolidated returns has certain disadvantages, but the existing situation also produces some undesirable results. Attempts are being made to develop reasonable solutions.

In the overall consultative process, various labour representatives expressed the view that increased tax advantages provided to companies should be tied to equity participation in those companies. However, mandatory equity participation by Government can be a deterrent to private investment. Recent tax advantages accorded industry are directed to the encouragement of additional investment which should result in greater productivity and ultimate benefits from increased jobs. The Government sees in this greater investment more advantages for the economy than would be obtained by exchanging tax advantages for an equity position for Government.

20. Recommendation

The impact of inflation on the ongoing operation of a business be recognized for tax purposes by allowing a capital maintenance adjustment to income in arriving at taxable income. The capital maintenance adjustment would be the sum of:

- an inventory adjustment, being the difference between the cost of goods sold as recorded in the accounts and the cost of replacing those goods at the time of sale as determined by applying a general price index; and

- a capital cost allowance adjustment, being the difference between the accumulated capital cost allowance based on historical cost and the accumulated capital cost allowance based on replacement cost determined using the Gross National Expenditure Implicit Price Index.

Government Response (Disagree)

A large number of task forces recommended that the Government adopt some form of inflation accounting in the measurement of business income for tax purposes.

The Government does recognize the distortions that arise from use of historic cost accounting in an inflationary environment. It has come to be generally accepted that inflation not only leads to an overstatement of profit because of first-in first-out inventory and historic cost depreciation accounting, but also to an understatement of profit because accounting conventions overstate the real cost of corporation borrowing during an inflationary period.

When the implications of debt financing are recognized, along with the full implication of accelerated capital cost allowances, the investment tax credit and the three per cent inventory adjustment, the overall level of Canadian corporation taxation does not differ greatly from what it would be under a comprehensive system of inflation accounting. Again, the need to maintain tax system stability indicates caution in any early movement to a comprehensive system of inflation accounting. There would also be many considerations in such a move related, for example, to the changes in tax burden on particular sectors in both directions that would result, to tax complexity, to the interaction between the corporate and personal tax, and to the harmonization of Canada's tax system with that in other countries.

The Government will, however, continue to support the development of appropriate inflation accounting systems in the private sector because of the importance of accurate information on business operations for the efficient operation of the economy, and the possibility that the existence of such information would allow a fairer distribution of the total corporation tax burden among sectors.

TRADE INITIATIVES

21. Recommendation

With the expectation that Governments, industry and labour will react in a positive manner to those recommendations in this report which would lead to a competitive environment in Canada relative to the U.S., the federal government negotiate a bilateral free trade agreement with the U.S. for a limited group of petrochemicals listed below, using as appropriate the export of additional quantities of natural gas as bargaining leverage. The agreement should become effective as soon as possible and should be subject to the following conditions:

a) Those companies which account for a majority of the existing Canadian capacity for any product will have agreed to inclusion of the product on the list before bilateral free trade commences.

b) Those companies producing the select list of products must agree to the set of safeguards to be put in place. In this regard, one of the safeguards which should be examined would be an agreement which would terminate at the end of 1985, with tariffs returning to post-Tokyo Round agreed levels, subject to review by Governments and industry during 1984.

List of Products

Ethylene dichloride
Ethylene glycol
Ethylene oxide
Methanol
Polyethylene, High Density
Polyethylene, Low Density
Polyvinyl chloride
Propylene tetramer
Styrene
Vinyl chloride monomer

The task force member representing Alberta Gas Ethylene Company Limited believes that after provision for safeguards has been agreed, an initiative towards a bilateral free trade agreement should include all of the products listed above.

The O.C.A.W. representative did not support a bilateral free trade initiative. It was his view that this approach could serve to undermine Canada's position at the current GATT negotiations.

Government Response (Under review)

The Government has been concentrating its efforts regarding trade liberalization in the multilateral trade negotiations (MTN) which are expected to conclude by mid-1979. To the extent that certain specific sector objectives are not met, other possible approaches, including bilateral arrangements, will be considered when the MTN is concluded.

DEVELOPMENT OF CANADIAN DOWNSTREAM INDUSTRIES

22. Recommendation

In view of the build-up of petrochemical capacity under Government ownership in a number of foreign countries, the Department of National Revenue should be alert to dumping of petrochemicals in Canada and should automatically assume dumping when it can be proved that products entering Canada have been exported at less than full production cost in the country of origin.

Government Response (Agree in principle)

As a general rule, it has been the administrative practice of the Department of National Revenue to consider sales below cost as not being in the ordinary course of trade. Consequently, proof that products are entering Canada at prices which are less than the full cost of production, would normally constitute evidence of dumping. Under GATT rules, however, anti-dumping duties can only be imposed after establishment by the Anti-Dumping Tribunal of material injury.

Government is committed to taking expeditious action on injurious imports compatible with our international rights and obligations. Specifically, its efforts in this area include:

a) improved execution of the significant positive measures already taken by Finance, the Anti-Dumping Tribunal and Revenue Canada in anti-dumping and countervail legislation;

b) continued development by Finance, Revenue Canada and Industry, Trade and Commerce of more efficient domestic procedures and administration of regulations/legislation dealing with injurious imports, taking into account changes resulting from the MTN.

23. Recommendation

To stimulate the upgrading of Canadian resources, tariffs should be staged to give more protection to higher value-added products.

Government Response (Agree in principle)

The Government recognizes the importance of strong downstream industries for the development of the petrochemical industry, and therefore, the role that appropriate relative levels of tariff protection can play. It should be pointed out that at present, the rates of duties on the products of many important downstream consumer industries are higher than those for most petrochemicals. This relationship has been taken into account in the development of Canada's position for the multilateral trade negotiations (MTN). One of the Government's major objectives in the current MTN has been to reduce foreign tariffs affecting Canada's exports of upgraded resource product.

24. Recommendation

The federal government should support recommendations of the task forces on Plastics Processing and Synthetic Textiles and Clothing with respect to the current GATT negotiations.

Government Response (Under review)

In developing Canada's position for the multilateral trade negotiations, the Government has given careful consideration to the views and recommendations of the above task forces.

25. Recommendation

In designing programs following from sectoral strategies, Governments must recognize the need for viability of the whole chain of processing industries involved in upgrading hydrocarbons to finished products. Measures implemented in any individual sector of the chain should not be counter-productive in any other sector.

Government Response (Agree)

In designing Government programs following from sector strategies, the Government is aware of the need to fully consider the effect of the proposed measures on interdependent and complementary industries.

REGULATORY ENVIRONMENT

26. Recommendation

The federal government extend the socio-economic impact analysis principles to existing federal regulations and that provincial governments adopt this principle.

Government Response (Agree in principle)

The Department of Consumer and Corporate Affairs, in consultation with the Board of Economic Development Ministers, is leading an interdepartmental review which will set out an interim work program on regulatory review for federal departments. Among other topics, this work program will assess the applicability of Socio-Economic Impact Analysis (SEIA) to existing regulations, design a framework for internal policy review where SEIA may not be appropriate, and suggest where immediate evaluations of federal regulatory activity should be undertaken.

In response to the Overview Committee, the federal government has noted that it is conscious of the difficulties underlying labour's concern regarding the serious limitations in utilizing cost-benefit analysis in determining the adequacy of certain regulations. Significant difficulties do exist in assigning quantitative values that reflect a broad societal consensus. The Government is committed therefore to making such studies publicly available prior to implementing regulatory change that might arise from them. This will give interested parties a chance to publicly question the values so assigned.

Federal and provincial Industry Ministers agreed to recommend that all governments conduct a review of key regulatory activity, consider the feasibility of undertaking and making publicly available cost/benefit analysis before implementing major new social regulations, and consult collectively to remove overlap in a manner consistent with their respective jurisdictional authority.

27. Recommendation

Guidelines and regulations established by Governments with respect to the hazards of chemicals be based on scientifically-supported and practically obtainable data.

Government Response (Agree in principle)

It is the Government's general policy that regulations and guidelines should be prepared with full reference to all available data and the advice of qualified authorities. In cases where public health or safety may be at risk, action may be necessary in the absence of the full data and scientific support that would normally be desirable.

28. Recommendation

Such regulations and guidelines be established only after consultation with the industry and labour.

Government Response (Agree in principle)

The federal government has decided to consult with all interested or affected parties at the problem definition stage before making new regulations or proposing guidelines, where the circumstances permit and warrant such consultation. Normal procedure has been to form industry/government consultative expert task forces to prepare necessary regulations or guidelines. Labour is welcome to participate in these task forces. It should also be noted that the involvement of any interested party in the regulation and guideline process is made possible through the federal government's recently introduced SEIA process by which the cost-benefit analysis is made publicly available for comment prior to the implementation of major new and revised health, social and fairness regulations.

COMPETITION POLICY

29. Recommendation

The federal government adopt the amendments to Bill C-13 outlined by the Canadian Chemical Producers' Association in its brief of March 28, 1978 to the Minister of Consumer and Corporate Affairs.

Government Response (Under review)

The Government is considering task force recommendations in the formulation of future competition legislation.

ORDERLY GROWTH

30. Recommendation

Consultation between governments and the industry be continued on an informal basis to monitor significant changes in market development and investment plans; to avoid intergovernmental conflicts with respect to such development and plans and to assess the effects of macro-economic and framework policies on the performance of the industry.

The O.C.A.W. representative maintained that there should be more direct involvement of governments in the planning process.

Government Response (Agree)

Officials of the Department of Industry, Trade and Commerce will consult with industry and provincial government representatives concerning market development and investment plans in order to reduce intergovernmental conflicts and to assess the effects of policies on the performance of the industry.

31. Recommendation

The federal government continue its policy that investment in key petrochemicals should not be subsidized and the provincial governments support this policy. The policy should apply to those petrochemical products listed in Appendix II of the "Profile of the Canadian Petrochemical Industry" plus petrochemicals of a similar nature not now manufactured in Canada.

Government Response (Agree in principle)

The federal government supports the principle of this recommendation.

OTHER MEASURES

32. Recommendation

Further nationalization or direct government participation be limited or eliminated in areas where the private sector has clearly demonstrated its ability to effectively perform in the public interest (e.g. resource nationalization).

The O.C.A.W. representative was of the view that because much of Canada's petrochemical industry is affiliated with international organizations, governments, through Crown corporations, should set the tone and direction the industry should take.

Government Response (Agree in part)

As indicated by the Minister of Industry, Trade and Commerce in his speech to the Canadian Manufacturers' Association of October 3, 1978 the federal government believes the growth and expansion of the Canadian economy should be fuelled by private Canadian funds to the greatest degree possible. However, the federal government considers that there is a continuing rationale for its participation in economic development in circumstances where project size, degree of risk or overriding national interest requires a public presence and it continues to believe that it must have freedom to exercise this prerogative.

33. Recommendation

The level of public expenditure as a proportion of gross national product be reduced.

Government Response (Agree)

The federal government has made a commitment to keep the rise in government spending below the growth of GNP. In making this commitment the Government has been conscious of the need to maintain an adequate level of expenditure devoted to social programs and that the onus of restraint does not fall exclusively in these areas.

ANNEX I

LIST OF PARTICIPANTS IN THE PETROCHEMICAL INDUSTRY CONSULTATIVE TASK FORCE

CHAIRMAN

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Vice-President
Union Carbide Canada Limited

SECRETARY

A.E. LeNeveu
Director General
Chemicals Branch
Department of Industry, Trade and Commerce

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B.G. Côté
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Polysar Limited

H. Gauthier
Eastern Regional Co-ordinator
Oil Chemical and Atomic Workers International Union

W.J. Mandry
President and Chief Executive Officer
Canadian Industries Limited

F.S. McCarthy
President and Chief Executive Officer
Du Pont of Canada Limited

C.L. Mort
Vice-President
Dow Chemical of Canada Limited

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Senior Policy Co-ordinator
Industry Sector Policy Branch
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