

# PALOS

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## Weekly Commentary

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## Dow Inc. – Capitalizing on Canada’s CCUS Initiatives

Although we wrapped up our eight-part series on “Climate Change: Carbon Capture Utilization and Storage” (CCUS) on September 27, we were intrigued by an interesting headline in last week’s news, therefore we’re revisiting the topic.

At their investor day held on October 6, **Dow Inc. (NYSE: DOW)** announced plans to build what it claims to be the world’s first net-zero carbon emissions ethylene and polyethylene plant in Alberta’s industrial heartland. Upon completion the investment would “decarbonize roughly 20% of Dow’s global ethylene capacity while growing supply by about 15%”. In conjunction with the plans for a new plant, Dow also confirmed its intention to retrofit the company’s existing Fort Saskatchewan, Alberta facility. The project will advance Dow’s commitment to reduce CO2 emissions by 30% before 2030 and reach carbon neutrality by 2050.

Dow Chairman Jim Fitterling stated the investment “builds on Dow’s strong leadership position and allows us to meet the increasing needs of customers and brand owners seeking to lower their carbon footprint”. In addition, Fitterling commented that Alberta’s support for circular hydrogen and CCUS infrastructure development was critical to Dow moving forward to the investment decision.

The Fort Saskatchewan complex, located approximately 50 km northeast of Edmonton, was selected because of its proximity to feedstock from the petrochemical industry as well as access to third party infrastructure, specifically the Alberta Carbon Trunk line (ACTL). As we wrote about in our August 23 issue, the ACTL is a CO2 ‘capture and transportation’ system, a joint venture between **Wolf Midstream** and **Enhance Energy** (private). Presently, the system captures CO2 from the refining and fertilizer production industries and transports the CO2 for commercial uses including enhanced oil recovery (EOR).

Fitterling also cited the Canadian government for its support of carbon reducing infrastructure and technological initiatives. The Canadian government’s Net Zero Accelerator Initiative, launched in 2020, has committed CAD\$ 8 billion towards funding green projects. Fitterling commented “Canada’s support for this

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type of investment can serve as a model for how government investment can encourage the development and accelerate adoption of emissions-avoiding technologies and solutions”. Clearly, government support played a critical role in attracting Dow’s planned project to Alberta.

At full capacity, it is expected that the investment will more than triple Dow’s global ethylene capacity at the Alberta site while significantly reducing the company’s carbon footprint. The new and retrofitted facility will permit Dow to supply global markets with over three million tonnes per year of certified low carbon emissions polyethylene. While the investment is subject to approval of Dow’s board, we believe that given the growing importance of reducing CO2 emissions in the battle against climate change, the investment will likely receive approval.

Las week’s announcement from Dow should be widely welcomed by Canada’s burgeoning CCUS industry and Canadians alike given the importance of sustaining our petrochemical industry, creating economic opportunity and jobs, as well as helping Canada reach our net-zero carbon commitments by 2050.

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Chart 1: Palos Domestic Funds versus Benchmarks (Total Returns) <sup>1</sup>	FundServ	NAVPS	YTD Returns
Palos Income Fund L.P.	PAL100	\$9.93	20.74%
Palos Equity Income Fund - RRSP	PAL101	\$7.63	20.73%
Palos Merchant Fund L.P. (Dec 31, 2020) <sup>2</sup>	PAL500	\$1.35	-21.15%
Palos WP Growth Fund - RRSP	PAL210	\$23.45	46.94%
Palos-Mitchell Alpha Fund <sup>3</sup>	PAL300	\$10.32	23.79%
S&P TSX Composite (Total Return with dividends reinvested)			19.64%
S&P 500 (Total Return with dividends reinvested)			18.21%
S&P TSX Venture (Total Return with dividends reinvested)			0.32%
Chart 2: Market Data <sup>1</sup>			Value
US Government 10-Year			1.61%
Canadian Government 10-Year			1.63%
Crude Oil Spot			US \$79.35
Gold Spot			US \$1754.60
US Gov't10-Year/Moody BAA Corp. Spread			186 bps
USD/CAD Exchange Rate Spot			US \$0.8018

<sup>1</sup> Period ending October 8, 2021. Data extracted from Bloomberg

<sup>2</sup> Fund is priced annually

<sup>3</sup> Fund is priced weekly on Tuesdays

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