Investment Attraction for Industrial Zones

Issue: In order for Alberta to compete on the global stage, we need to address issues such as regulatory uncertainty and cost competitiveness so that industry has the tools it needs to maintain a competitive advantage and so that the province and regions can attract new investment opportunities.

Background

The petrochemicals sector accounts for approximately one-third of Alberta's total manufacturing exports with producing 27% of Canada's chemical output. Contributing $6.8 Billion to the provincial GDP and $6 Billion in exports, Alberta holds Canada's largest refining and petrochemical cluster. We boast modern, world-scale plants with access to abundant resource feedstock and efficient transportation systems able to deliver supply to consumers. There is significant potential for investors who are interested in taking advantage of Alberta's vast energy resources and new government development programs to build new petrochemical plants in the province.

Five main petrochemical regions have been developed in Alberta to support our petrochemical industry across the province, with the Alberta Industrial Heartland, Central Alberta and Joffre, Medicine Hat, Grande Prairie and Yellowhead County.[1]

In addition, industrial manufacturing is a foundational industry that supports infrastructure development as well as energy and natural resource production in Alberta. With world-class expertise and access to global supply chains, Alberta's industrial manufacturing sector delivers high-value products and services across Canada and around the world. Alberta's industrial manufacturing industry has key strengths that make the industry competitive and positioned for growth with $2.6 Billion in GDP and $1.3 B in exports, there is opportunity to expand this sector[2].

This Government has committed to responsible energy development and a sensible approach to greenhouse gas reductions that will get Albertans back to work and also had a commitment to work with municipalities to facilitate pre-approved industrial zones to streamline regulatory approvals and decision-making.

Red Tape Reduction initiatives, reductions in corporate taxes and the new Tier program are positive steps, but is not always sufficient to ensure that Alberta is the most attractive location for investment decisions. There are investment challenges to be overcome, including capital cost uncertainty, higher logistics costs and risks due to the inland location of Alberta, and longer-term carbon pricing uncertainty compared to other global locations.

Currently, the Petrochemicals Diversification Program (PDP) is only available to and rewards proponents with project schedules that fit the application window. However, the business planning cycle for new investments is approximately five to seven years, but can be longer depending on market conditions. With a long-term planning horizon, a more open-ended program would give prospective investors the required certainty and predictability and would avoid the appearance of government picking winners and losers. The rewards of successful investment attraction will provide stable tax revenue, stable well-paying jobs, community investment and best-in-class emissions technology.

In addition, if investment attraction support programs had clear up-front criteria to qualify for and receive investment supports, a company that successfully meets the requirements could be assured of investment attraction support once the investment project is operational. Receipt of the support upon project completion minimizes government liability and provides a potential net gain through construction and early operations

[1] https://investalberta.ca/industry-profiles/petrochemicals/

[2] https://investalberta.ca/industry-profiles/industrial-manufacturing/

(i.e. self-funding) in addition to providing longer- term economic development, jobs, and taxation benefits. Criteria could include value-add to the natural gas resource, level of capital expenditure, job creation, etc.

The form of investment supports should address the unique circumstances of each investment. The Petrochemical Diversification Program currently uses Royalty Credits that are granted to the successful applicants during the first three years of operation. Applicants are generally not royalty payers, so there is leakage in the system, as well as additional tax liabilities. The government could consider other investment attraction supports that would be of use to project applicants, such as refundable tax credits or grants, while maintaining the self-funding attractiveness by making these available only during early years of operation. Such programs could be a percentage of invested capital, comparable to investment supports in competing jurisdictions.

In addition, another main challenge in investment decisions is that Canada is outpacing competing jurisdictions on the price of carbon, making it less likely that investments will flow to Canada unless greater certainty on carbon pricing can be provided. The uncertainty on long-range carbon pricing (beyond 2022) and increases through ratcheting, potentially erode competitiveness with other jurisdictions and are barriers to securing an investment that benefits the economy for decades into the future. In order to address this challenge, government could consider a contractual agreement approach that provides longer-term certainty on carbon regulatory compliance costs to improve Alberta's investment competitiveness and encourage industry investment. Of course, such an agreement would be conditional on the any industrial plants having a world-class carbon footprint.

As an example, the Province of British Columbia signed an Operating Performance Payments Agreement with LNG Canada[3], which is intended to encourage investment from the LNG industry. One of the key components of this agreement is compensation for the carbon tax that may apply above a specific threshold, where the facility maintains best-in-class status. The compensation in this scenario would come from the PST re-payment schedule. The BC agreement illustrates the effective use of a program that is outside, but complementary to existing GHG regulations, and which incentivizes investment in large best-in-class industrial facilities.

If the Government proceeds to create a regulatory and tax environment that works, an investment attraction model that supports investment, diversification and expansion opportunities, long term certainty, combined with leveraging the opportunity for designated industrial zones, we can increase our competitiveness and opportunities for our province and more economic certainty moving forward for both business and Government.

The Alberta Chambers of Commerce recommends the Government of Alberta:

1. Provide investment attraction support programs that are open-ended, predictable and transparent;
2. Provide clear, up-front criteria for any support programs in order to qualify for and receive investment supports;
3. Provide fair and equitable opportunity to any company that meets the eligibility criteria;
4. Provide investment supports that address the unique circumstances of each investment;
5. Consider a contractual agreement approach that provides longer-term certainty on carbon regulatory compliance costs;
6. Create a "concierge service" for large industrial projects to remove barriers and guide them through the permitting and regulatory processes while requiring high standards for safety and environmental performance;
7. Work with municipalities to facilitate pre-approved industrial zones to streamline regulatory approvals and decision-making.

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[3] Legislation introduced to complete fiscal framework for LNG investment, jobs and benefits https://news.gov.bc.ca/releases/2019FIN0035-000478