RDC Policy Recommendations

The Resource Diversification Council wants to ensure that Albertans receive the full value of their energy resources and our members are committed to promoting environmental stewardship and innovation. RDC has made policy recommendations to all political parties to support diversification and help develop policies and frameworks that encourage further development of the petrochemical and hydrocarbon processing sectors.

Alberta is not getting full value for its resources, we can't move our resources and as a result, provincial revenues from resources have declined significantly and the province is losing millions of dollars every month. Taxation alone can't solve the problem. We need new industries and new investment, creating new jobs and stable government revenues.

The benefits of diversifying Alberta's economy are well-documented and most experts agree that economic diversification is imperative to the success of our province and our nation. Yet it is slow to be realized. Alberta has largely failed to attract new investment in energy diversification projects, which has led to continued volatility in the economy, less opportunity for our children and less spending on social programs.

Large industrial value add energy investments, such as petrochemical projects, help provide economic resilience and diversification, are innovative, demonstrate environmental leadership and create high skilled, high paid jobs for decades. We can no longer "let the market decide" where to build value added facilities. The market has sent over 98% of new and planned capital investment in petrochemical and chemical manufacturing in recent years to the U.S. Gulf Coast which has aggressive and well-established state and municipal incentives that are long-term and customizable to project needs. This loss of investment and the resulting tax revenue, GDP and jobs hurt all Albertans.

Alberta is Canada's leading producer of petrochemicals, producing about $13.5 billion of chemicals and chemical products every year. We have world class facilities in Joffre, Medicine Hat, Elmsworth, Cochrane, Fort Saskatchewan, Redwater and in the Industrial Heartland. But this is not all we are capable of. We are still exporting lower value products for refining and upgrading elsewhere. In many cases, we then turn around and import those higher value products back to Alberta and Canada, leaving the profit elsewhere.

RDC members have over **$26 Billion** in potential petrochemical, refining and natural gas projects which include a variety of feedstocks: methane, ethane, propane, butane, liquefied natural gas and bitumen. If these projects are built in Alberta, construction over the next 10 years would add over **$5 Billion** to municipal, provincial and federal tax in Alberta and Canada. That construction would also add direct full time employment of over 55,000.

Once the facilities are operational, they would create 2,700 permanent jobs each year across all industries. They would add **$140 Billion** to the GDP of Alberta and Canada and would generate **$21 Billion** in tax revenue at the municipal, provincial and federal levels over 20 years of operations. They are also likely to result in the creation of spin off industries and facilities in Alberta, generating more jobs and GDP for the province.

RDC members want to build these facilities here in Alberta – but they will build them wherever they get the best return on their investment.

The petrochemical industry is undergoing a global renaissance, largely due to shale gas. The first wave of investments in North America totaled $240 billion CAD (62% of which represent foreign direct investments). However, Canada's share of this investment over the past five years has been less than 2%, compared with 10% historically. This is due largely to coordinated and comprehensive investment attraction programs offered throughout the United States. Federal and state government supports are in the order of 10%-15% of the capital costs of projects. The jurisdictions where those facilities are built realize immense benefit in the form of good-paying and highly-skilled jobs, tax revenue, and spin off industries. Those jurisdictions realize that the benefits far outweigh the costs of investment attraction programs.

Recently, the US Government approved the most drastic changes to the US tax code in 30 years. This will have a significant impact on Canada's ability to compete for investment. Once implemented, the new tax framework will bring Louisiana's tax rate basically on par with Alberta, and Texas' tax rate becomes lower as it does not have a state corporate tax for petrochemical projects. This is before factoring in the impact of incentive programs, which have a significant impact on the Internal Rate of Return for projects.

Alberta has advantages - abundant feedstock, significant infrastructure and a highly skilled labour pool. But Alberta has locational challenges that affect the costs of construction including long winters, higher labour costs and distance from ports that add to the capital cost of projects in comparison to other jurisdictions. In addition, investors in Alberta face a regulated carbon environment, rising power costs, and are challenged by market access, rail costs and logistical issues getting product to ports. Alberta projects also can face longer periods of regulatory approval even in areas that are designated as industrial zones such as Alberta's Industrial Heartland, Joffre and Medicine Hat.

Combined, these factors weigh heavily on an investor's ability to successfully start a project in Alberta versus developing the project in other regions including the U.S. Gulf Coast.

While we support a commitment to low taxes and a competitive regulatory framework for Alberta, the competitive global environment requires a more active and creative approach from all levels of government.

The government can have a significant impact on investment decisions being considered currently by world scale petrochemical companies. Alberta can increase its share of the next investment wave, but it will require a coordinated and focused effort on increasing our competitive advantage. It is about recognizing that investors have choices in the location of their facilities and developing policies that make Alberta competitive.

RDC commissioned a study which looked at other jurisdictions and the investment attraction programs they have. We then came up with recommendations for a long-term and predictable investment climate that attracts further value added development in Alberta. We don't want to copy what Texas and Louisiana are doing, but we should be taking the best elements of those programs and making a program that will work in, and for, Alberta.

Creating an investment program in Alberta that is transparent, unbiased and predictable is leveling the playing field with competing jurisdictions and combating market failures. A successful program will add substantial tax revenue to the province, create skilled, high paying jobs and ensure that Albertan's get full value for their resources.

Recommendation:

1. ***We recommend that the Alberta Government develop an aggressive investment attraction program that will ensure that Alberta is the number one jurisdiction to invest in.***

In addition to having a competitive tax and regulatory frameworks, we need certain investment attraction tools – like feedstock, royalty and tax credits – to help drive Alberta from second to first place on an investor's list of possible locations. With this strategy, Alberta will attract capital, create jobs and new sources of revenue. The financial benefits will far outweigh the government's investment. The economic activity generated by a new facility – no matter where in Alberta it is located – provides significant benefits across our province and country.

Programs like the Petrochemical Diversification Program could be changed in ways that would transform them into tools designed to better attract more world-class petrochemical and refining facilities and the highly skilled, high paying jobs that come with them. An effective investment attraction program would:

- Exist for a minimum of one full business cycle – seven years – with an open intake period throughout, after which a program review is conducted
- Establish clear and weighted performance criteria and thresholds that an investor must meet, and that directly relate to tax reduction, if fulfilled

- Be feedstock agnostic, available to all economically viable petrochemical projects
- Reduce taxes in a form that value add companies can use such as corporate, income or carbon tax (or a combination thereof)
- Incent petrochemical sector investment recognizing the low GHG intensity of Canada's value added resource sector by exempting new best-in-class facilities from carbon pricing for a set number of years. This serves to curb global emissions by displacing new development in countries with less stringent emission regulations.

A successful and competitive investment attraction program would seek to offset 10-15% of capital costs and include monetary as well as non-monetary options from all levels of government in a coordinated manner. These options should use the following criteria as a guideline:

- **Certainty** – in order to plan capital investments of these magnitudes and reach final investment decision in Canada's favour, investors need a high degree of certainty in programs and regulations.
- **Permanence** – if programs or policies are temporary or have an expiry date, they will be deemed too high risk to factor into the capital planning life cycle, which spans approximately 6-8 years.
- **Timeliness** – in the case of grant programs particularly, the call for proposals, communication between government and applicants and award decision must be managed in a timely manner.
- **Focused** – in order to attract petrochemical investments, programs and policies must be focused on and tailored to such projects.
- **Performance-based** – policies should ensure benefit to community by tying incentives to performance measures such as job creation, research and development, innovation and capital investment.

There are ways to make investment attractions programs low risk for the government:

Example
Interpipeline Ltd. was awarded $200 million in royalty credits in the first Petrochemical Diversification Program for their Heartland Petrochemical Complex, scheduled to begin operations in 2021. The award was made prior to the company making a Final Investment Decision and influenced the decision to build in Alberta.

These credits will be granted in the first three years of the facility's operation by which time the company will have invested $3.5 billion and created more than 13,000 full time equivalent jobs. Governments in Alberta will have received $697 million in revenue and the GDP impact will be almost $3 billion - all prior to any royalty credits being granted[1]. Inter Pipeline's facility will generate $190 million in provincial and municipal taxes over the four year construction period which could pay for the construction of 10 schools in Alberta (based on the 2018 Alberta Budget capital plan).

Once the project is operational, it will generate $63 million every year in provincial and regional taxes – that could pay for the Medicine Hat Regional Hospital and repairs to the Northern Lights Regional Health Centre in Fort McMurray (based on the 2018 Alberta Budget capital plan). It will also create skilled jobs and indirect and induced employment in other industries.

Investment attraction programs result in a substantial net positive for government balance sheets and would help Alberta reduce its deficit and get off the resource price roller coaster.

Such programs need to be established and need to be established now to ensure that Alberta does not miss out on any more petrochemical and value added facilities.

Recommendation:

2. ***We recommend that the Alberta Government develop policy to streamline project permitting, regulations, and government administrative services.***

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[1] Economic impact assessment conducted by Ronald Schlenker, University of Calgary

A 2016 study by the Canadian Energy Research Institute, A Competitive Analysis of the Canadian Petrochemical Sector, showed that the regulatory process in Alberta can take twice the amount of time to work through when compared to jurisdictions in the United States with an estimated approval timeline of 18-24 months in Alberta vs. 9-12 months in the U.S. This is a significant factor when companies are choosing where to locate these billion dollar facilities.

Regulatory policies should have the following goals:

- Streamlining the permitting process to make it more efficient with a guaranteed approval timeline.
- Streamlined administrative services - the provision of a single window or one-stop shop for government services, fast-track customs services and simplified license procedures.
- Simplified regulatory framework – transform from a case-by-case evaluation of applications to a process of simple registration, meeting clearly defined criteria, increasing transparency and predictability.
- Facilitate provision of secondary permits and authorizations - Additional permits such as land, buildings, labour, health and safety, can be facilitated by vesting all such authorizations with the zone authority rather than with other ministries and agencies.

Recommendation:

3. ***We recommend that the Alberta Government develop policy to establish diversification zones for each industrial centre to attract new processing facilities that utilize Alberta feedstocks to produce higher value products and provide employment for Alberta's skilled workforce.***

Diversification Zones created in established industrial centres such as Alberta's Industrial Heartland, Joffre and Medicine Hat would facilitate investment and diversification in the province. This diversification would result in many benefits for the province, including tax revenue and well-paying jobs, both during construction and over the operating lives of the facilities.

A Diversification Zone would include the following attributes:

- Land, access to all necessary utilities including roads, railway, power, water, natural gas and oil pipeline connections;
- Consultation that is for the site, not the type of facility;
- Preapproved blanket permitting for the diversification area as long as a proposed activity meets all applicable environmental standards.
- Facilities to process, store and transport feedstocks to support diversification within the designated zones.

A key global trend and one found in competing jurisdictions is the movement toward the establishment of one-stop shops to consolidate and expedite government approvals. The creation of Diversification Zones is consistent with successful industrial zones such as those in the U.S. Gulf Coast, Asia, the Middle East and Europe. In China, special economic zones have contributed 22% of China's GDP, 45% of total national FDI and 60% of exports and are estimated to have created over 30 million jobs. The creation of Economic Diversification Zones could be turned into a "competitive advantage" for Alberta, while still meeting our high environmental standards.

These three policy actions – an aggressive incentive attraction program, streamlining project permitting, regulations, and government administrative services, and creation of diversification zones would make Alberta a much more attractive location for investment in value added facilities. These investments would significantly add to Alberta's GDP and tax revenue and help the province reduce its deficit. It would allow the government to invest in schools, hospitals and roads. The financial benefits to the province far outnumber any costs of such programs.