

Investment Attraction for Industrial Zones (2023)

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 concept of cluster development was introduced in Michael E. Porter's paper, *The Competitive Advantage of Nations* published in the Harvard Business Review in the March-April 1990 edition.¹³⁰ This paper references a study that aimed to determine the differentiating factors in what makes a country successfully competitive on the global scale. It consisted of a detailed, four-year analysis of 10 different countries with different cultures, strategies, and success in various industries. The paper discusses four Determinants of National Competitive Advantage: Firm Strategy, Structure, and Rivalry; Demand Conditions; Factor conditions; and Related and Supporting Industries (p.77). The last determinant references, in essence, cluster development.

Since the time of Porter's paper, there have been numerous other studies and papers written on the subject. Ultimately, there has been a general consensus on the definition of cluster development as:

"...clusters are widely acknowledged as a type of activity-specific system, situated within broader regional innovation systems, where interaction between actors supports quicker diffusion and absorption of knowledge, more effective innovation and efficient solutions to a range of other localized drivers of competitiveness". (Wilson et al., 2022).¹³¹

This discussion has spurred many local and regionalized innovation hubs and is the underlying basis of the Designated Industrial Zone (DIZ) concept. If there are related businesses located in close proximity to one another with the benefits of regulatory streamlining, there is an increased likelihood of those businesses experiencing a successful outcome.

In 2022, the Alberta Government announced that it would move forward with a Designated Industrial Zone pilot in Alberta's Industrial Heartland. This project was contingent on six critical factors: formal agreement, coordinated zoning, target size and scale, cluster infrastructure, harmonized permitting, and environmental management. The Industrial Heartland is located in Central Alberta, spread across five municipalities covering a total area of 592km², and is primarily focused on the petrochemical industry.

Given that Alberta's Industrial Heartland is the first government partnership of its kind, it can be referred to as a model for future zones. The petrochemical industry was an obvious starting place for the province's first DIZ as the region had already been identified as a priority for the province¹³²

¹³⁰ Porter, M. E. (1990). The competitive advantage of nations. Harvard Business Review. <https://hbr.org/1990/03/the-competitive-advantage-of-nations>

¹³¹ Wilson, J., Wise, E. & Smith, M. (2022). Evidencing the benefits of cluster policies: towards a generalised framework of effects. Policy Sciences, 55, 369-391. <https://doi.org/10.1007/s11077-022-09460-8>

¹³² <https://investalberta.ca/industry-profiles/petrochemicals/>

and industrial development in the region was already taking place. The petrochemical sector accounts for approximately one-third of Alberta's total manufacturing exports, producing 27% of Canada's chemical output. Contributing \$6.8 Billion to the provincial GDP and \$6 Billion in exports, Alberta has modern, world-scale plants with access to abundant resource feedstock and efficient transportation systems. 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.

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.¹³³

There are environmental considerations that must be noted with such a large area focused on the development of these two important industries. The provincial government has committed to responsible energy development and a sensible approach to environmental protection. In an effort to achieve balance, the Alberta government is actively updating its environmental strategy to address topsoil management guidelines, air emissions requirements, water quality management, environmental assessments, and financial or human resources for implementing environmental management programs¹³⁴ within the DIZ.

In terms of economic development for the region and the province, EY completed an Economic Impact Study on Alberta's Industrial Heartland, released in July of 2019¹³⁵. In terms of the provincial direct, indirect, and induced economic impacts, the combined operational expenditures in the region resulted in \$4.476 billion in output, meaning the "total economic activity of new goods and services because of activities occurring within a particular area". Furthermore, there was more than \$1.756 billion in GDP, \$1.594 billion in wages, and the equivalent of 23,213 FTEs (p.35) in one year. The capital expenditures over the period of 2017-2020 resulted in \$17.243 in output, \$10.500 in GDP, and 7,935 FTEs resulting in

\$1.581 in wages. With a provincial and regional collaboration, there is an expectation that the additional resources put toward streamlining regulation and shared infrastructure while mitigating environmental impacts will contribute to an increase in the measurable economic impact for the region and the province.

While Alberta's Industrial Heartland is primarily comprised of petrochemical operations, there should be a focus on developing DIZs supporting the development of other industries across the province. The streamlining of provincial regulations is a critical piece to the success of a DIZ and the organizations located within it, and therefore any provincial policy should reflect the niche organizations within the specific DIZ. As referenced by Porter (1998) "The aim of cluster policy is to reinforce the development of all clusters." "Governments should not choose among clusters, because each one offers opportunities to improve productivity and support rising wages."¹³⁶

¹³³ <https://investalberta.ca/industry-profiles/industrial-manufacturing/>

¹³⁴ <https://www.alberta.ca/industrial-heartland-designated-industrial-zone.aspx>

¹³⁵ https://industrialheartland.com/wp-content/uploads/2019/07/EYLLP_AIH_EconomicImpactStudy.pdf

¹³⁶ Porter, M. E. (1998). Clusters and the new economics of competition. Harvard Business Review. <https://hbr.org/1998/11/clusters-and-the-new-economics-of-competition>

Given both the studied success of cluster developments in addition to the demonstrated benefit within the Province of Alberta, it is apparent that there is an advantage to cluster development with streamlined regulations within a designated region. Therefore, it should be a goal of the government to facilitate the development of additional designated industrial zones in the province.

The Alberta Chambers of Commerce recommends the Government of Alberta:

1. Work with municipalities to clarify the process of obtaining an industrial zone designation in support of expanding the number of industrial zones across our province;
2. Assist and facilitate qualifying municipalities to better understand the requirements associated with streamlining regulatory approvals;
3. 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;
4. Provide investment attraction support programs with fair and equitable opportunity to any company that meets the eligibility criteria in alignment with existing economic development partners.