

Special Economic Zones

Issue

There are emerging industrial development regions in Alberta that if transformed into Special Economic Zones (SEZ) would create environments conducive to business and industry success where governments otherwise face great difficulties doing so.

Background

SEZs are defined as geographically delineated areas subject to differentiated regulation and administration for the purpose of attracting foreign direct investment in economic activity that may not be otherwise achieved. Characteristics of an SEZ are:

- *a special regulatory regime*: zones normally operate under more liberal economic laws than those that typically prevail, regarding issues such as labour, land use, and foreign investment
- *public services*: zones are normally serviced with efficient customs, fast-track registration and licensing, often through “one-stop-shop” services
- *infrastructure*: zones have much better and more reliable infrastructure such as roads, power, and water, compared to the domestic economic environment
- *fiscal incentives*: the zone’s investors, particularly its anchor investors, often enjoy capital freedoms and certain levels of tax incentives and subsidies

Direct benefits include employment generation, foreign direct investment, government revenue, and export growth. Indirect benefits include skills upgrading, technology transfer & adoption, export diversification, enhancing trade for domestic firms, cluster facilitation, and urban and regional development. However, SEZs are only successful when all levels of government coordinate in the structuring of regulations and policies that support the zone itself.

Examples of SEZs in North America, are:

CentrePort Canada - Winnipeg, Manitoba

Programs support businesses who are active importers of goods from countries that Canada does not have a free trade agreement with or of goods from countries where these products do not move duty or tariff-free. Industry Sectors: E-Commerce, Agribusiness & Food Processing, Advanced Manufacturing, Energy & Mines, Biomedical.

Foreign Trade Zone Program:

- Duty Deferral – duties are waived up-front or rebated later
- Sales tax relief – exemption from federal goods and services tax (GST)
- Customs bonded warehouse – sales tax and duty-free storage/distribution facilities

The Foreign trade zone program helps companies determine which program suits their business needs and facilitates fast-tracked approval:

- assistance with negotiating incentives
- fast-tracked land development approvals
- access to skilled, abundant labour with competitive wages
- training support & training incentives
- immigration recruitment programs to match industry needs
- government-funded employee health care costs
- strong manufacturing and R & D tax credits
- data processing tax credits
- no inventory taxes

Global Transportation Hub – Regina, Saskatchewan

Located about five kilometers west of Regina and minutes from the Regina International Airport, the Global Transportation Hub (GTH) offers efficient rail and road infrastructure adjacent to the CP Rail mainline and between two major highway systems. Industry Sectors: transportation and logistics, warehousing and distribution, as well as light processing and manufacturing.

Foreign Trade Zone Status:

- Duty Deferral - duties are waived up-front or rebated later
- Sales Tax Relief - exemption from federal and provincial sales tax
- Exporters of processing services - relieves participants of obligation to pay federal and provincial sales tax on imports belonging to non-residents
- Export Distribution Centre - imported goods processed to add limited value before exporting exempt from federal and provincial taxes
- Customs Bonded Warehouse - sales tax and duty-free storage/distribution facilities

Texas Enterprise Zone Program

A state sales and use tax refund program designed to encourage private investment and job creation in economically distressed areas of the state.

Texas communities must nominate companies in their jurisdiction to receive an Enterprise Zone Designation to be eligible to receive state sales and use tax refunds on qualified expenditures by submitting an application on the company's behalf.

- Must operate in an industry that is expected to provide high economic impact to the Texas region in which it is considering locating; it should be a target industry for the state or an ancillary or support industry.
- Should promote highly skilled, high wage jobs.
- Must plan to create new positions that will be filled by local residents in addition to the transferred employees.
- Must be in the decision-making process to relocate or expand their operations in Texas during the application process.

Louisiana Opportunity Zones

Federal capital gains tax incentive program is designed to drive long-term investments to low-income communities. The new law provides a federal tax incentive for investors to re-invest their capital gains into Opportunity Funds. There are three primary advantages to rolling over a capital gain into an Opportunity Fund:

1. Defer – the payment of your capital gains until Dec 31, 2026
2. Reduce – the tax you owe by up to 15% after 7 years
3. Pay Zero – tax on gains earned from the Opportunity Fund

There are 150 census tracts in Louisiana that are qualified opportunity zones.

Alberta Opportunity for SEZs should be in regions that are assessed as strategic economic growth opportunities for the province. These may include Alberta's Industrial Heartland, Joffre, Medicine Hat, Grande Prairie and Fort McMurray. A pilot project may be introduced to demonstrate the operational and investment benefits of a specific region over a time period to best determine whether the government should expand its policies across Alberta.

The Alberta Chambers of Commerce recommends the Government of Alberta:

1. Work with industry to create a provincial Special Economic Zones strategy to incent diversification of Alberta's economy and attract investment through a coordinated approach with all levels of government;
2. Work with industry and stakeholders to research and develop studies that evaluate and articulate the assets of each specialized economic zone; and
3. Work with industry to create an assessment of where Special Economic Zones should be implemented and create test pilot Special Economic Zone(s) in one or more of the following suggested areas: Alberta's Industrial Heartland, Joffre, Medicine Hat, Grande Prairie and/or Fort McMurray.