

'Every city would die to have this': What will it take for Canada to win Amazon's HQ?

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If history is any indication, Canadian governments — and their possibly less-enthused taxpayers — may have to empty their pockets if they want to win the sweepstakes for Amazon.com Inc.'s new North American home.

Amazon announced last week it will open a second corporate headquarters on the continent, with the e-commerce giant expecting to spend more than US\$5 billion on the project and provide up to 50,000 “high-paying jobs” for the lucky city.

The announcement set politicians' hearts aflutter across Canada and the United States, leaving them with less than two months to put together a bid before the Oct. 19 deadline for responses.

“Every city would die to have this,” said Walid Hejazi, associate professor of economic analysis and policy at the University of Toronto's Rotman School of Management.

So far, officials from Montreal, Toronto, Ottawa, Calgary, Edmonton, Vancouver, Halifax and Kitchener-Waterloo have all expressed interest in the project.

But convincing Amazon to locate the campus it is calling HQ2 north of the border could be a tall — not to mention expensive — order for Canadian cities.

Amazon laid out some of its demands in a request for proposal document, hinting that it will take some serious generosity to earn its investment. In addition to voicing a preference for a metropolitan area with a population of more than one million people, Amazon also highlighted the “incentives” a government may wish to offer, mentioning free land costs, grants and tax credits.

“We acknowledge a project of this magnitude may require special incentive legislation in order for the state/province to achieve a competitive incentive proposal,” said the company's RFP.

“Amazon is in a very, very strong bargaining position,” Hejazi said, adding that the company probably still wants to avoid overplaying its hand for fear of souring relations with their new hosts.

In the past, the federal government has teamed up with provincial governments to offer grants and incentives to encourage large investments from particular businesses.

For example, Ontario and the federal government each gave Ford Motor Co. conditional grants of up to \$102.4 million as part of a \$1-billion deal announced in March. The grants were to help fund research and development at the company's Canadian facilities.

GRANTS ADD UP

In the case of Amazon, grants around that 10 per cent level could cost governments more than \$1-billion in total.

In a statement attributed to Economic Development Minister Navdeep Bains, the federal government told the Financial Post, among other things, that “we welcome the opportunity to engage with our provincial and municipal counterparts to attract further investments and resilient jobs.”

Ontario has also provided funding on its own on occasion, including an up to \$220-million grant to Cisco Systems Inc. that was announced in 2013, part of a potential \$4 billion investment by the tech company. That's not far off the size to what Amazon is now promising.

“When you have a Cisco locate in Canada and create those kinds of jobs, the whole ecosystem around it is really high-value and beneficial to the Canadian economy,” Hejazi said.

Amazon could end up fielding some exorbitant offers, based on recent developments.

Wisconsin is currently weighing a US\$3-billion incentive package for Taiwan's Foxconn Technology Group, in return for a new US\$10-billion liquid-crystal display plant.

The U.S. also has a penchant for throwing big money at stadiums, such as the New York Yankees receiving \$431 million in federal subsidies, according the Brookings Institution, despite being one of the most valuable franchises in sports.

TAXING ISSUES

Governments seeking Amazon's site may be better off just slashing taxes, suggested Jeffrey Miron, director of economic studies at the libertarian Cato Institute and a senior lecturer at Harvard University.

“I suspect they're going to have to more or less promise not to impose any significant business taxes, like corporate income taxes,” Miron said in a phone interview. “Because that's basically what the kind of deals that other big manufacturers have gotten from certain cities, is to really get out from under the vast majority of standard business income taxes.”

U.S. President Donald Trump may also be loath to let one of the biggest companies in the world to take 50,000 jobs to Canada.

But given how contentious his immigration policies have been in Silicon Valley, the Trump factor may actually play to Canada's advantage.

“In the current political environment, we're very, very attractive because we're inside North America, we have a prime minister and a government that's really open to allowing people to come in,” Hejazi said.

Miron said the decision for a government should come down to a “thoughtful evaluation” of the situation. However, he added, if the job or wage estimates end up being overly rosy, or a government ends up shelling more than they intended, it may not be as sensible.

“And then it’s just a handout to Amazon.”