Confectionery : "The Alberta Opportunity"

ALBERTA

Strategic Position

The province of Alberta is strategically located in western Canada to access North America and Asian markets. Alberta processors have a competitive advantage in North America over offshore processors due to the North American Free Trade Agreement (NAFTA) between Canada, United States and Mexico.

The Boyd Company, Inc. compared operating costs for confectionery manufacturing throughout North America. Summary results are included. The analysis showed Alberta to be the lowest cost location.

In comparison to the United States, the opportunity for confectionery manufacturing in Alberta is driven by the availability of locally produced sugar at world market price. Most sugar-containing products that undergo substantial transformation in the manufacturing process are traded duty-free within the NAFTA region.

Food and beverage processing industries represent the largest manufacturing sector in the province. Several multi-national food processors operate production facilities in Alberta including; Nestle, Tyson, ConAgra, Cargill, Frito-Lay, General Mills, ADM and McCain Foods.

Alberta has a very competitive corporate tax rate for manufacturers and processors. There are no capital or payroll taxes, and no provincial sales tax. Albertans also benefit from the lowest overall taxes in Canada. Alberta is the only province to introduce a single flat rate for personal income tax.

Sugar Beet Industry In Alberta

Production of sugar beets in Alberta began in 1902 and came about as a result of the introduction of irrigation to the southern Alberta area. Today there are approximately 1.3 million acres serviced by irrigation. The average number of acres planted to sugar beets from 1997 to 2001 is about 38,400 acres per year and production from these acres has been approximately 778,600 tons per year.

Refined Sugar Industry in Alberta

Canada has historically been able to keep its refined sugar prices among the lowest in the world. Canada does not subsidize the production or processing of raw sugar. The price of Canadian refined sugar is directly linked to the world raw sugar market. In Alberta, Rogers Sugar contracts with sugar beet growers to encourage continued high quality production and increased acreage of beets.

Rogers Sugar operates a beet processing facility in Taber, Alberta. This plant is capable of producing up to 150,000 metric tonnes per year and is one of the most modern sugar refineries in North America.

Production in the Taber facility includes granulated and powdered sugars in several package sizes. There are also two types of liquid sugar produced in Taber, liquid sucrose and liquid invert. Both are shipped to industrial customers via bulk tankers. Rogers Sugar is also able to supplement its Taber production with processed cane sugar from its plant in Vancouver, British Columbia.

The Boyd Company, Inc. Key Findings

The Boyd Company, Inc. of Princeton, New Jersey is a leading site location firm, which has analyzed the key cost elements most pivotal for confectionery industry site selection. Costs in the analysis are in U.S. dollars.

Costs are projected based on a model 175,000 sq. ft. production plant employing 335 hourly workers. Finished product is shipped over-the-road to 12 key regional market cities for optimum North America distribution. A benchmark volume of 510 short tons per month of refined sugar is used to project the key sugar ingredient cost. Geographically-variable costs for 30 manufacturing locations in the U.S. and Canada are compared.

Alberta Has The Lowest Costs

- Alberta has the lowest total annual operating costs of the 30 locations in Canada and the U.S.
- Costs in Alberta are 23.5% less than the lowest cost U.S. location and 40.5% less than the highest cost U.S. location.
- Cost savings compared to U.S. locations range from $4.9M ($U.S.) to $10.9M ($U.S.) annually.

Sugar Costs

- Sugar ingredient costs are lowest in Alberta, and less than half of the sugar costs at U.S. locations. No provincial sales tax in Alberta contributes to the lowest sugar costs.
- Costs are based on a five-year average market price for raw New York No. 14 sugar for U.S. locations ($.21 per lb.) and No. 11 world market raw sugar prices for Canadian locations ($.09 per lb.).

Occupancy and Utility Costs

- Alberta ranks among the lowest 10 locations for both facility occupancy and utility costs. Natural gas costs are the lowest in Alberta reflecting Alberta's position as a major supplier of natural gas in North America.

Hourly Labour Costs

- Total annual labour costs including fringe benefits are lowest in Alberta.
- Fringe benefits in Canada are based on 20% of the annual payroll compared to 37% in the U.S. The corporate cost burden for fringe benefits is reduced in Canada due to the universal health care plan.

Transportation/Distribution Costs

- Outbound shipping costs for Alberta are better than average for the 30 locations. This confirms that even though Alberta is located some distance from major population centers in North America, it is still competitive for product distribution.

Selected Sample of Location Comparisons (in $,000 U.S.)

Confectionery Industry Centre	Hershey, PA.	Chicago, IL.	Los Angeles, CA.	Charlotte, NC.	Alberta, Can.
Sugar Cost (510 tons/month)	$3,814	$3,913	$3,895	$3,868	$1,650
Hourly Labour Costs (335 workers)					
Hourly Earnings	$17.43	$15.55	$16.43	$14.97	$11.98
Annual Base Payroll	$11,111	$9,918	$10,479	$9,548	$7,641
Fringe Benefits	$4,111	$3,669	$3,877	$3,532	$1,528
Occupancy Costs (175,000 sq. ft.)	$1,571	$1,873	$2,397	$1,837	$1,543
Outbound Shipping Costs	$3,518	$2,788	$4,135	$3,405	$3,479
Total Annual Geographically-Variable Operating Costs	$24,615	$22,565	$25,177	$22,626	$16,130

Conclusion: Consider the Alberta Option

With today's transportation network, companies can operate from a low cost location such as Alberta to enhance profits while achieving customer and market service standards throughout North America.

For more information contact: Agri-Food Investment Division
780 427-7366 or fax to 780 422-3655
email: Agrifood.Invest@gov.ab.ca

Alberta
AGRICULTURE, FOOD AND RURAL DEVELOPMENT