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Quebec is sweet to candy makers

Savings on wages, taxes and energy attract investment by foreign processors

BY ANN KERR

Lower sugar prices, energy costs and wages. They're all ingredients that helped sweeten the deal when Kraft Foods Inc. decided last year to move its production of Life Savers candies from Holland, Mich., to Mount Royal, just outside of Montreal.

Attracting such a major American icon has been sweet for Quebec, too - a boon to the province's reputation as a preferred business location.

"This is absolutely a great marketing story, one that we'll use to sell our message about the competitive advantages of Montreal to companies looking to move or establish a North American operation," says Yves Gignac, senior director for United States investment at Montreal International, an independent organization representing all levels of government and the private sector that promotes investment in the greater Montreal area.

Although Kraft says the move was primarily because the U.S. plant was "underutilized" and its existing Mount Royal operation was able to absorb the extra production relatively easily, the business metrics influenced its decision too.

"By transferring to Mount Royal we'll be able to benefit from lower operating expenses and raw material costs, including sugar," says Cathy Pernu, spokesperson for Kraft in Northfield, Ill.

There's no word yet from Kraft about whether it will transfer its Canadian Life Savers production from Hamilton, Ont., to Mount Royal as well. Beta Brands Ltd. produces the candy for the Canadian market, but Kraft purchased the rights in 2001. Kraft isn't planning to announce what will become of the production line until the end of the year, when the transition from Beta is complete.

The price of sugar is a big inducement for confectioners deciding to locate in Quebec, says Daniel Emond, vice-president of operations for North America at chocolate firm Barry Callebaut Canada in Saint-Hyacinthe, who previously worked for Kraft.

'Wages are typically lower than most points in Canada'

"We don't want to mention it too much because it's getting more difficult to use Canadian sugar in American products. We don't want to get bans or duties put on our products," he says.

Barry Callebaut started up production in Quebec in 1997. The Swiss-based company has since moved its North American head office there from the United States, expanded its production and opened a research and development institute, investing about $20-million.

The company also operates plants in Vermont, New Jersey and Pennsylvania but about 55 per cent of its production is now out of Quebec.

Barry Callebaut makes about 145,000 tonnes of chocolate a year in North America, supplying major food processors such as Kraft, Kelloggs and Nabisco.

In the past five years, foreign investment in the province's food processing industry generally increased by 25 per cent, according to the provincial government's Invest Quebec.

Several multinationals, such as U.S. based Cargill Inc., which opened a meat-processing plant in Chambly, have opened plants in recent years and major companies such as Robin Hood Multifoods Inc. and Lantic Sugar Ltd. have expanded their operations.

Besides sugar costs, energy and wages are major inducements to set up shop in the province, Mr. Emond says.

"Wages are cheaper here by 15 to 25 per cent, depending on the region in the States. For instance, the hourly rate, whether unionized or not, is $14 to $17 (Canadian) for regular operators in Quebec, compared to $16 to $19 [U.S.] in the U.S. That's a big difference," says Mr. Emond.

In fact, in a study of G7 countries for KPMG last year that found Canada to be the cheapest country over all for business operations, Montreal came out ahead with the lowest cost index of all major cities compared.

Consultant Stuart MacKay says Quebec has historically been a leader in offering incentives.

"Wages are typically lower than most points in Canada and companies pay less corporate tax, " says **Stuart MacKay**, co-author of the study and now a partner of **MMK Consulting Inc.** in Vancouver.

Another plus is Quebec's tax credits for research and development, says Brian Casey, manager of branding at the federal government's Investment Partnership Canada division.

"In their R and D, if you add all the credits up, they come out ahead of the other provinces, " says Mr. Casey.

Besides those enticements, there's also Quebec's financial incentives to companies that locate or expand their operations in the province. Kraft, for instance, was given $15-million when it relocated.

"It was a direct government grant over three years, part of the initial evaluation process when we were determining efficiencies. The money went to a variety of capital investments, " says Stephanie Minna, Kraft Canada spokesperson in Toronto.

"Quebec has historically been the leader in Canada in offering incentives, with a willingness to play the 'let's make a deal' game, " says Mr. MacKay.

Business regions in the United States typically offer big handouts to business but Mr. MacKay and others question whether they're really necessary.

Kraft, for instance, was offered $45-million to stay put by the Michigan Economic Development Corp., if it would increase production, including moving some of its Quebec lines to Michigan.

"Kraft wasn't prepared to invest in that production. It would have required significant investment," says Ms. Minna.
Incentives aren't that significant compared to advantageous base costs, says Mr. Casey.

"There's a mythology that it's incentives that move plants. It isn't," Mr. Casey says.

Barry Callebaut applied for a government grant for its research institute, says Mr. Emond, but didn't receive one.

The company is planning to expand its facilities and increase production out of Quebec, and is consulting with the provincial government for funding to help with capital expenses.

But with a new provincial government in Quebec, incentives, along with other economic programs, are under review, says Jacques Delorme, spokesperson for the Quebec finance ministry.

U.S. consultant John Boyd, for one, believes Quebec will continue with its aggressive "open for business" approach, including healthy incentive packages.

"Fundamental strengths are the most important thing, absolutely, but we counsel our clients to look at incentives once they're down to the final couple of locations. That's where it can make a difference," says Mr. Boyd, president of New Jersey-based Boyd Consultants.

Following the Life Savers move, Montreal International put together a special report to promote the province to international candy companies, particularly those in western Europe that were considering establishing new operations located in North America.

"There's a big candy show, a trade event, every year in Chicago. We didn't even bother going last year," says Mr. Gignac. "This year, for sure, we'll be there."

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