

# **The Atlantic Canada Advantage: A Comparison of Business Costs in Atlantic Canada, the United States and Europe**

## ***ABSTRACT***

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# An Investment Guide for Business Location Decisions

Choosing a location for a new investment is a major undertaking. For businesses considering the establishment of an operation in North America or Europe, often the first major challenge is often to identify which countries or regions are most promising in terms of overall costs. This report, *The Atlantic Canada Advantage*, helps firms in addressing this challenge by rigorously analyzing business costs in seven countries—Canada, France, Germany, Italy, Sweden, the United Kingdom and the United States, and comparing these countries to the Atlantic region of Canada. In presenting this comparison, the study goes a long way in helping businesses with their location decisions.

The final investment decision must go beyond cost factors, to include workforce availability, quality of life, education, and medical care — just to name a few. But it is still true that many of the primary factors in the investment decision are related to costs.

As illustrated in Exhibit 1, the report analyzes the individual and combined impact of key location-sensitive cost factors, for eight industries in 42 cities within seven countries. Its authors are Stuart MacKay and Glenn Mair of KPMG Canada.

## *The Model*

The findings of this comparative study are based on a KPMG financial model that incorporates the key location-sensitive cost factors shown in Exhibit 1 KPMG developed illustrative business scenarios in eight industries, and collected data for all industries in each of the locations.

In developing the model, each facility was assumed to have sales in excess of US \$10 million and a minimum of 100 employees. The analysis focused on costs of establishing facilities on a 5-10 acre site in suburban areas zoned for light-to-medium industrial purposes. Using standard financial and operating assumptions, the model developed financial statements, such as balance sheets and income statements, over a ten-year period, treating each facility as a stand-alone operation.

## Exhibit 1

### Study overview

#### MANUFACTURING INDUSTRIES EXAMINED:

- Electronics
- Food Processing
- Medical Devices
- Metal Fabrication
- Pharmaceuticals
- Plastics
- Software
- Telecommunication Equipment

#### JURISDICTIONS STUDIED:

##### Canada – Atlantic Region

- Charlottetown, PE
- Halifax, NS\*
- Moncton, NB
- St. John's, NF

##### Canada – Other Canadian Locations

- Calgary, AB\*
- Edmonton, AB
- Hamilton, ON
- London, ON
- Montreal, QC\*
- Ottawa, ON
- Quebec City, QC
- Sarnia, ON
- Saskatoon, SK
- Sudbury, ON
- Toronto, ON\*
- Vancouver, BC
- Winnipeg, MB

##### France

- Grenoble\*
- Toulouse\*
- Valenciennes\*

##### Germany

- Darmstadt\*
- Dresden\*
- Dusseldorf\*

##### Italy

- Avezzano\*
- Modena\*
- Turin\*

##### Sweden

- Goteborg\*
- Karlskoga\*
- Malmo\*

##### United Kingdom

- Cardiff\*
- Manchester\*
- Telford\*

##### United States

- Austin, TX
- Bellingham, WA
- Boston, MA\*
- Colorado Springs, CO\*
- Columbus, OH
- Minneapolis, MN
- Norfolk, VA\*
- Raleigh, NC
- Sacramento, CA
- Scranton, PA\*

#### LOCATION-SENSITIVE COST FACTORS EXAMINED:

- Industrial land
- Construction
- Electricity
- Telecommunication
- Labour
- Wages and salaries
- Statutory benefits
- Other benefits
- Transportation/distribution
- Interest & depreciation
- Income taxes
- Other taxes

\* Included in the international comparison.

## **Key Findings**

### **1. Overall costs are lowest in Atlantic Canada**

For the eight industries examined, Canada has the lowest overall costs among the seven countries, while Atlantic Canada has the lowest costs of any region in Canada. The countries and regions, in order of cost and index rating (United States=100) are as follows:

- Atlantic Canada (index 92.1)
- Canada (index 94.6)
- Sweden (index 96.3).
- United Kingdom (index 98.3).
- United States (index 100.0).
- Italy (index 102.8).
- France (index 103.6).
- Germany (index 107.2).

### **2. Component costs vary by country and region**

The comparative results vary in different cost areas:

- Among countries, land costs are lowest in the United States, and construction costs are lowest in Canada. Construction costs in Atlantic Canada are in line with the Canadian average, while land prices are lower than in Canada or the United States, giving Atlantic Canada the lowest initial investment costs.
- Among countries, total labour costs, including wages and benefits, are lowest the United Kingdom, followed by Canada. In Atlantic Canada, labour costs are well below the Canadian average, and total labour costs for the Atlantic Canada region are lower than in the UK. Labour costs account for more than half of location-sensitive annual costs.
- Transportation costs to the North American/ European marketplace are lowest in the United Kingdom and Germany. Transportation costs for Atlantic Canada are relatively high, due to the greater distance from major markets.
- Electricity costs are lowest in Sweden, followed by Canada. Costs in Atlantic Canada are in line with the Canadian average.

- Telecommunications costs are lowest in Canada and the United States. Costs in Atlantic Canada are in line with other parts of North America.
- Interest costs, reflecting the combination of interest rates and investment costs, are lowest in Canada, particularly in Atlantic Canada where low initial investment costs reduce borrowing requirements.
- The relative corporate income tax burden is lowest in Canada and Sweden, with the effective combined corporate income tax rate in Atlantic Canada being marginally below the Canadian average.

### **3. Results are consistent across industries**

With a few exceptions, the overall rankings of each jurisdiction are consistent across each of the eight industries. Costs in Atlantic Canada are below the average for Canada, the first-ranked country, for all eight industries examined.

The size of the advantage varies by industry. For example, Atlantic Canada's advantage over the second-ranked country, Sweden, is less than 5 percent for all industries except software production, where the availability of research and development tax credits gives Atlantic Canada an advantage of more than 8 percent.

Cost indices for each industry, country and city are contained in the full report.

### **4. Results vary with exchange rates**

The study results will vary with exchange rates. For example, at a current Canadian dollar value of US\$0.73, Atlantic Canada's cost index of 92.1 translates into an overall cost advantage of 7.9 percent over the United States. This advantage would be lost if the value of the Canadian dollar were to increase by 22 percent, to US\$0.89. In other words, the Atlantic Canadian cost advantage over the US holds as long as the value of the Canadian dollar is less than US\$0.89.

Comparative results for each jurisdiction are contained in the full report.

## 5. Other comparative factors are also important

In addition to cost, numerous other factors need to be considered in selecting a business location:

- **Economic environment**—price stability, economic growth rates, business and consumer confidence, government fiscal responsibility, and public debt.
- **Corporate environment**—workforce quality and availability, industry clusters, public attitudes toward business, proximity to customers, suppliers and business partners, investment climate, political stability, corporate crime rates, air travel connections and local business travel.
- **Personal environment**—quality of education, cost of living, personal income taxes, personal safety (property and personal crime), quality and availability of health care, cultural values, climate and physical environment, recreational opportunities, lifestyle amenities, air quality, and local personal travel.

While a comprehensive discussion of each factor is beyond the report's scope, the report does provide sample comparative information with respect to consumer prices, unemployment rates, expenditures on education, and an overall rating according to the United Nations Human Development Index.

### *The Main Report and Supporting Documentation*

The main body of the study, 39 pages, is comprised of four sections. The first section provides an introduction and summary of the key findings, while the second section describes the study methodology. The third section describes the international comparison of the seven countries, and the relative results for the Atlantic Canada region. The fourth section presents the individual results for all 42 cities studied.

For those interested in the study details, a volume of appendices are separately available from the Atlantic Canada Opportunities Agency. These appendices include over 100 pages of supporting documentation. The first eight Appendices are structured around the industries studied. For each industry, the authors have documented the assumptions used for each model facility and the comparative findings for initial investment costs, labour costs, electricity, transportation, telecommunication costs, taxation costs, and overall results. Costs are presented

graphically for each city, country and the Atlantic Canada region.

The ninth Appendix contains profiles for each of the 42 cities included in the study. The final Appendices provide information on the model, the sources used for data collection, and further general information about the study.

### *Further Information*

KPMG Canada conceived, researched and wrote the study, with sponsorship from the Atlantic Canada Opportunities Agency, the Royal Bank of Canada, Ontario Hydro and Canada's Department of Foreign Affairs and International Trade. The study is published by Prospectus Inc. of Ottawa.

Further information on this study and on Atlantic Canada's business opportunities can be obtained by contacting the following companies and/or government bodies.

#### *Information on this study and its results:*

##### **KPMG**

777 Dunsmuir Street  
Vancouver, BC V7Y 1K3  
Canada

Location and Investment

Strategies Practice (604) 691-3525

Stuart MacKay: (604) 691-3410

Glenn Mair: (604) 691-3340

Fax: (604) 691-3031

Internet: <http://www.kpmg.ca>

##### **KPMG London, UK**

1 Canada Square

London, E14 5AG

Charles Thoma +44 (0)171-311-4018

Fax: +44 (0) 171-311-4166

Internet: <http://www.kpmg.co.uk>

*Information on Atlantic Canada as a place to do business:*

**Government of Canada**

**Atlantic Canada Opportunities Agency**

Head Office

P.O. Box 6051

Moncton, NB

Canada E1C 9J8

Tel.: (506) 851-2271

Fax: (506) 851-7403

**Department of Foreign Affairs and International Trade (DFAIT)**

Lester B. Pearson Building

125 Sussex Drive

Ottawa, ON K1A 0G2

Canada

Internet: <http://www.dfait-maeci.gc.ca>

FaxLink: (613) 944-4500

InfoCentre: (613) 996-3298

**Industry Canada**

235 Queen Street

Ottawa, ON K1A 0H5

Canada

Internet: <http://strategis.gc.ca>

Strategis: 1-800-328-6189

InfoLine: (613) 954-2788

*Additional copies of this report:*

**Prospectus Inc.**

180 Elgin Street

Suite 900

Ottawa, ON K2P 2K3

Canada

Tel.: (613) 231-2727

Fax: (613) 237-7666