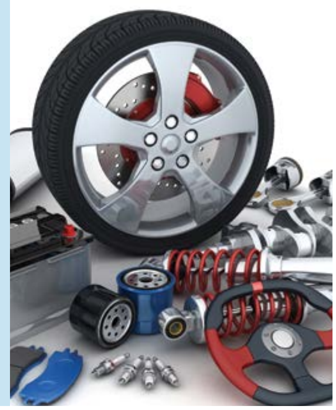
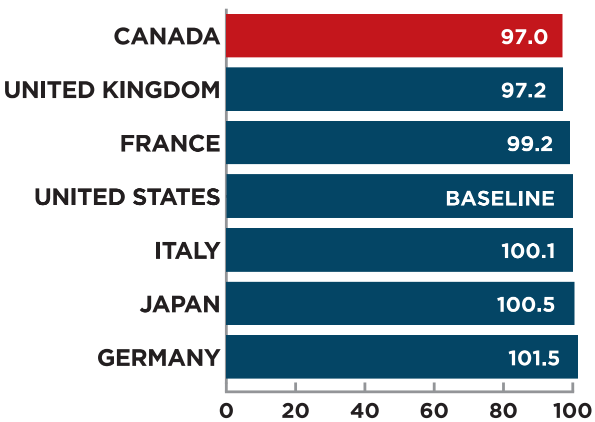
CANADA'S COST AND TAX ADVANTAGES – AUTOMOTIVE

The automotive industry is Canada's largest manufacturing sector and includes 450 automotive supply companies with 1,250 facilities, $27.9 billion in annual shipments and nearly $13 billion in exports in 2013. A competitive environment for business costs and business taxes represents one of the keys to Canada's success in the automotive industry.

In its 2014 study of global business locations, *Competitive Alternatives*[1], KPMG found that Canada offers the lowest business cost structure, and the second lowest business tax burden among the G-7 countries for auto parts manufacturing. Details of these findings are presented below, reflecting business costs and taxes for a "Tier 2/3" auto parts supplier.



AUTO PARTS MANUFACTURING COST INDEX, G-7 RESULTS (U.S. = 100.0)



CANADA'S COST HIGHLIGHTS

- Canadian auto parts operations enjoy an 11.2 percent saving on total labour costs relative to their U.S. counterparts. Lower costs for employee healthcare form the greatest part of these savings.
- For leasing of industrial facilities, costs in Canada are relatively low—36 percent lower than the G-7 average for this auto parts manufacturer.
- Low utility costs represent another advantage for Canada, ranking second among the G-7 countries for low industrial electricity costs for this auto parts firm, while natural gas costs in Canada are more than 50 percent lower than in five of the G-7 countries.
- Taxes represent the final component of Canada's cost advantage, as detailed on the next page.
- Combining all costs, Canada has the lowest cost structure among all G-7 countries, with total business costs 3.0 percent below the U.S. and 3.5 percent below Japan.

IMPACT OF EXCHANGE RATES

The 2014 edition of *Competitive Alternatives* was released in March 2014. The results from that study, including the results reported here, reflect exchange rates that were in effect in the fourth quarter of 2013. These results are sensitive to exchange rate changes.

During 2014, the U.S. dollar appreciated in value relative to most global currencies, including the Canadian dollar. For the model auto parts manufacturing firm, Canada's cost advantage relative to the United States **increases from 3.0 percent to 5.4 percent** at January 2015 exchange rates. The stronger U.S. dollar significantly increases Canada's cost advantage for international automotive firms.

[1] *Competitive Alternatives, KPMG's Guide to International Business Location Costs* and *Competitive Alternatives, Special Report:* Focus on Tax. Available for download from CompetitiveAlternatives.com.

LOW-COST HOT SPOTS

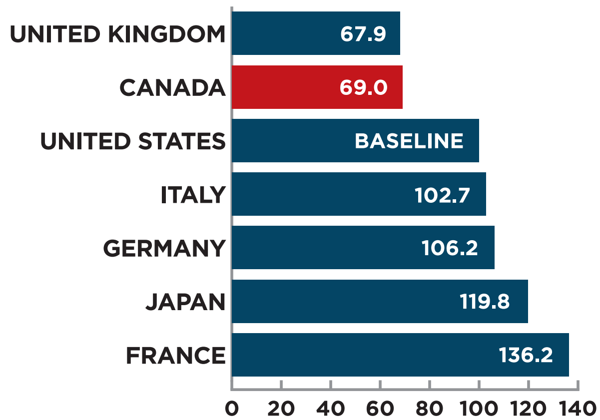
Business cost index of select Canadian cities (U.S. = 100):

A	City of Québec	96.4
B	Montréal	96.8
C	Niagara Region	96.9
D	Halifax	97.0
E	Toronto	97. 1

CANADA'S TAX HIGHLIGHTS[2]

- This production-oriented auto parts firm makes modest investments in both product and process-related R & D. Canada's generous R & D tax credits cause its effective rate of corporate income tax to drop to 15.0 percent, the second lowest rate in the G-7.
- Canada's costs for statutory labour costs and other corporate taxes are also relatively low, ranking below the G-7 average in both of these tax categories.
- Overall, Canada's total tax index for the model automotive firm is 69.0 – the second lowest among the G-7 countries and reflecting total tax costs 31 percent lower than in the United States.

AUTO PARTS MANUFACTURING TOTAL TAX INDEX[3], G-7 RESULTS (U.S. = 100.0)



SUMMARY OF OPERATING PARAMETERS

BUSINESS OPERATION: AIRCRAFT PARTS MANUFACTURING	
Facilities requirements	
Leased industrial site (24,281 m²)	6 acres
Size of factory (9,290 m²)	100,000 ft²
Workforce	
Management	4
Sales and administration	15
Production/non-dedicated product development	
• Professional, technical	27
• Operators	35
• Unskilled labourers	14
Other	5
Total employees	100
Other initial investment requirements	
Machinery and equipment – U.S. $'000	$13,000
Office equipment – U.S. $'000	$500
R & D equipment – U.S. $'000	$75
Inventory – U.S. $'000	$2,500
Equity financing – % of project costs	50%
Energy requirements	
Electricity: monthly consumption	352,500 kWh
Gas: monthly consumption (37,663 m³)	13,295 CCF
Other annual operating characteristics	
Sales at full production – U.S. $'000	$41,500
Materials and other direct costs – % of sales	55%
Other operating costs – % of sales	6%
Investment in tax-eligible R & D – % of sales	2.4%

[2] Calculations by MMK Consulting Inc. based on detailed data from *Competitive Alternatives, Special Report: Focus on Tax* as that report only published sector-level tax results.

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