

2009

Invest in Canada AUTOMOTIVE



Canada 

RECENT INVESTMENTS IN CANADA

- » **Toyota** opened a new \$1.1 billion vehicle assembly plant in 2008, creating 1,200 jobs in Woodstock, Ontario.
- » **Honda** opened a new \$154 million engine manufacturing plant in 2008, in Alliston, Ontario
- » **Ford** announced a \$730 million investment in 2008, to upgrade its engine plant and establish an advanced powertrain R&D centre in Windsor.
- » **Takagi Manufacturing** created nearly 100 jobs with a new stamping plant in Ontario in 2007.
- » **Denso** invested \$64 million to expand its auto parts plant in Guelph in 2007.
- » **Toyota Boshoku** invested \$87 million to open a new seating and interior trim plant in Ontario.
- » **Aisin Seiki** opened its second auto parts plant in Ontario, creating another 100 jobs.
- » **Hino Motors** opened a diesel truck assembly plant in Woodstock, creating 45 new jobs.

LEADING MANUFACTURERS IN CANADA

CAMI Automotive Inc. (GM-Suzuki)
 Chrysler Canada Inc.
 Continental AG (formerly Siemens VDO)
 Denso Corporation
 Ford Motor Company of Canada Ltd.
 General Motors of Canada Ltd.
 Honda Canada Inc.
 Johnson Controls Inc.
 Linamar Corporation
 Magna International Inc.
 Martinrea International Inc.
 PACCAR of Canada Ltd.
 Toyota Canada Inc.
 TRW Inc.

The automotive industry is Canada's largest manufacturing sector and accounts for 16.7 percent of North American vehicle production, or 2.6 million units¹. Canada is the world's third-largest exporter of automotive products, after Japan and the United States, with more than 84 percent of the vehicles built in Canada exported. Total revenues in 2007 were \$96.7 billion, while export revenues were \$70.5 billion².

The Canadian industry employs 153,000 people in approximately 1,300 establishments. Over the past 10 years, the auto manufacturing sector has attracted investment primarily from Germany, Japan and the United States. While employment and investment are concentrated in Ontario, Quebec and British Columbia have also attracted foreign investment.

Key Capabilities

Research & development (R&D): In 2007, companies operating in Canada committed \$524 million to automotive R&D. Canada's core strengths in auto-related innovation include: metal processing, advanced materials, advanced design, visualization and manufacturing, as well as information and communications technology.

Canada has vibrant R&D clusters and offers generous investment tax credits and funding to automotive companies for R&D. In addition to conducting independent R&D, private companies also partner with universities, colleges and public research centres in Canada to undertake collaborative research. Such organizations include the AUTO21 Network of Centres of Excellence, the National Research Council and the metals and materials laboratories of Natural Resources Canada.

Vehicle assembly: Canada is home to the second, third and fifth most productive light vehicle assembly plants in North America. Canadian assembly plants have earned a global reputation for exceptional quality, winning various awards:

- » Canadian assembly plants have won one-third of all J.D. Power plant quality awards for North America since 1991.
- » In five of the last seven years, Toyota and General Motors (GM) plants in Canada were rated the best in the western hemisphere in the annual J.D. Power initial quality survey.

» Canada is the world's third largest exporter of automotive products, with export revenues of \$70.5 billion in 2007

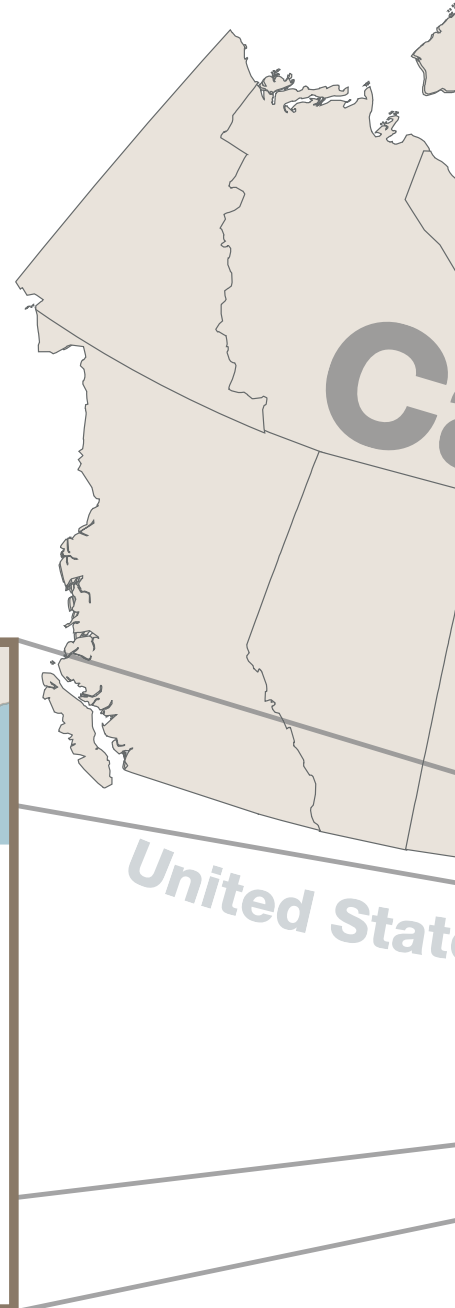
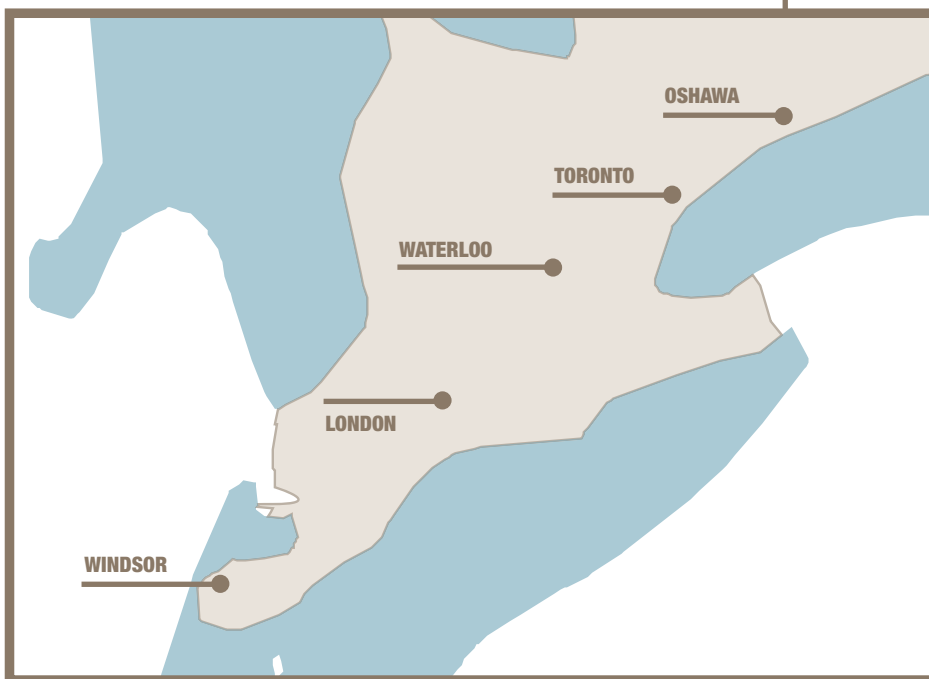
Ontario

Automotive assemblers and parts manufacturers are making major investments, positioning Ontario as one of the best places in the world to research, design, develop and manufacture vehicles and component parts. In fact, auto parts manufacturing shipments in Ontario totalled \$26.14 billion in 2007, or 94.6 percent of total Canadian output. Also, in 2006 two Ontario assembly plants ranked first and second in quality out of 84 facilities in North America, and again in 2007, an Ontario plant captured second place.

Annual capital investment in automotive manufacturing has averaged \$3.5 billion over the past 10 years, in leading clusters such as Windsor, Oshawa, Waterloo Region, London and Toronto. Leading companies include: Chrysler, Ford, General Motors, Honda, Toyota, Denso, Linamar, Magna and Michelin, to name a few. In fact, the only Toyota plant outside Japan to produce Lexus vehicles is in Waterloo Region.

Ontario's workforce competes favourably in terms of quality and cost against the best in the world, consistently winning the J.D. Power initial quality survey and the Harbour Report productivity survey. As a region, Ontario has more qualified engineers per capita than any G7 country. Of Ontario's roughly 135,000 highly-skilled autoworkers, 43 percent have a post-secondary education, and on average they stay with an employer for nine years.

Throughout Ontario, world-leading companies collaborate with more than 150 university, college and public research centres to speed new discoveries and processes from the lab to the marketplace. Helping to commercialize breakthroughs by connecting scientists with companies are AUTO21, the largest of Canada's Networks of Centres of Excellence, and the Centre for Materials and Manufacturing, part of the Ontario Centres of Excellence Inc. network.





Quebec

The Quebec automotive sector comprises over 250 companies and employs approximately 15,000 people in two main market segments: the original equipment market (OEM), and the secondary market, comprising of replacement parts and accessories.

The automotive sector brings together internationally renowned companies in **Greater Montréal**, including Rio Tinto Alcan, Mecachrome and Raufoss Automobile Components Canada. Montréal's strong expertise in light metals represents an undeniable competitive advantage with large, cutting-edge research facilities such as the Industrial Materials Institute (IMI), the Center for Applied Research on Polymers (CREPEC) at the École Polytechnique, and Concordia University's Center for Composites.



INVESTMENT LOCATION BENCHMARKING

METHODOLOGY

This benchmarking study assesses the competitiveness of a number of Canadian clusters against competing international business locations. Based on an investor's perspective, the research and analysis uses a representative investment project prototype (an automotive components producer and assembler—see profile on page 5) to assess criteria that corporate decision makers typically examine when evaluating location alternatives for foreign investment.

This international location benchmarking exercise was conducted by IBM-Plant Location International (IBM-PLI), a renowned global location consultancy. IBM-PLI performed objective research to assess the comparative cost and quality of doing business in various locations, simulating the approach used by investors when screening candidates for corporate investment projects. The benchmarking study examined 250 to 300 financial and qualitative location indicators in the assessment of each industry subsector.

To assess the quality of a location's operating business environment, data were collected from a variety of sources for the different subfactors in each of the categories featured in the operating environment table (page 5). Data for the qualitative assessment were translated into comparable scorings (zero to 10) for each subfactor using a weighted scoreboard approach. Weights were assigned to each location category and subfactor to demonstrate their relative importance in the location selection process. These weights are specific to each industry subsector and are based on IBM-PLI's experience in helping investors make strategic decisions when choosing locations.

A high-level financial analysis was also completed to take into account major location sensitive investment and operating costs and revenues for each representative project profile. Cash flow projections have been calculated and discounted over a 10-year period, incorporating anticipated inflation rates, to determine their net present value, and to assess the profitability of the project in each of the benchmarked locations.



benchmarking the comparative
cost and quality of doing
business in global locations



INVESTMENT LOCATION BENCHMARKING

REPRESENTATIVE PROJECT PROFILE



GENERAL DESCRIPTION OF OPERATIONS

Production and assembly of automotive components

KEY PROJECT DRIVERS

- » Availability of skilled personnel
- » Highway network
- » Access to markets

OPERATING COST ANALYSIS

PROJECT REQUIREMENTS FOR FINANCIAL MODELLING

LABOUR

(HEADCOUNT = 700)

Production
Operatives: 422
General Services
Specialists: 70
Engineers: 160
Management and
Administration: 48

SALES

CAD \$100,000,000

PLANT AND MACHINERY

CAD \$50,000,000

PROPERTY

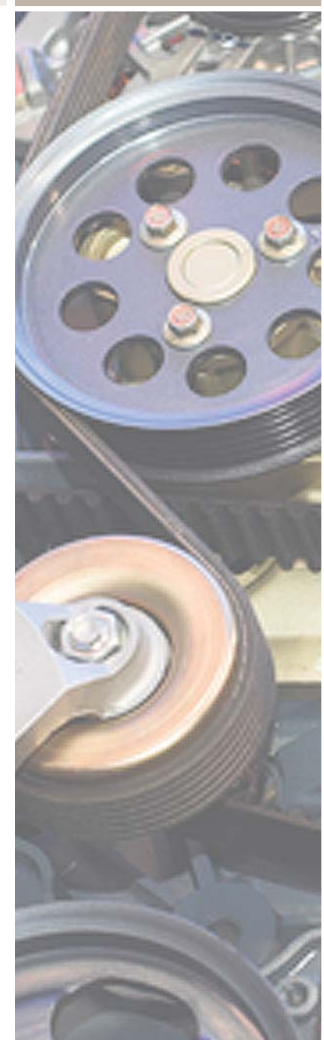
Site: 25 acres
Building: 220,000 sq ft

UTILITIES

Power:
(Monthly Consumption)
1,500,000 kwh
Gas:
(Monthly Consumption)
1,800 MCF

OPERATING ENVIRONMENT

GENERAL BUSINESS ENVIRONMENT » 10%*	» Quality of support from local government & development agencies; » Business permitting procedures; » Availability of financial support & incentives; » Compliance with protection of privacy regulations, information security, IP rights; » Economic and financial stability; » Political stability
LOCAL POTENTIAL TO RECRUIT SKILLED STAFF » 25%*	» Presence of experienced automotive employees, including manufacturing related; » Overall size of labour pool; » Overall tightness in the labour market (unemployment); » Presence of student population
PRESENCE OF INDUSTRY/CLUSTER » 20%*	» Presence of industry base; » Market proximity;
FLEXIBILITY OF LABOUR & REGULATIONS » 10%*	» Working time regulations; » Hiring & firing flexibility; » Industrial relations/attitude of unions; » Work permits
INFRASTRUCTURE & COMMUNICATIONS » 20%*	» Highway network & congestion; » Reliability of power supply; » Quality & reliability of IT & telecommunications; » Waterways and seaports; » Public transport; » Air access
REAL ESTATE » 10%*	» Availability of large industrial sites
LIVING ENVIRONMENT » 5%*	» Cost of living; » Attractiveness for young international recruits; » Attractiveness for expatriates

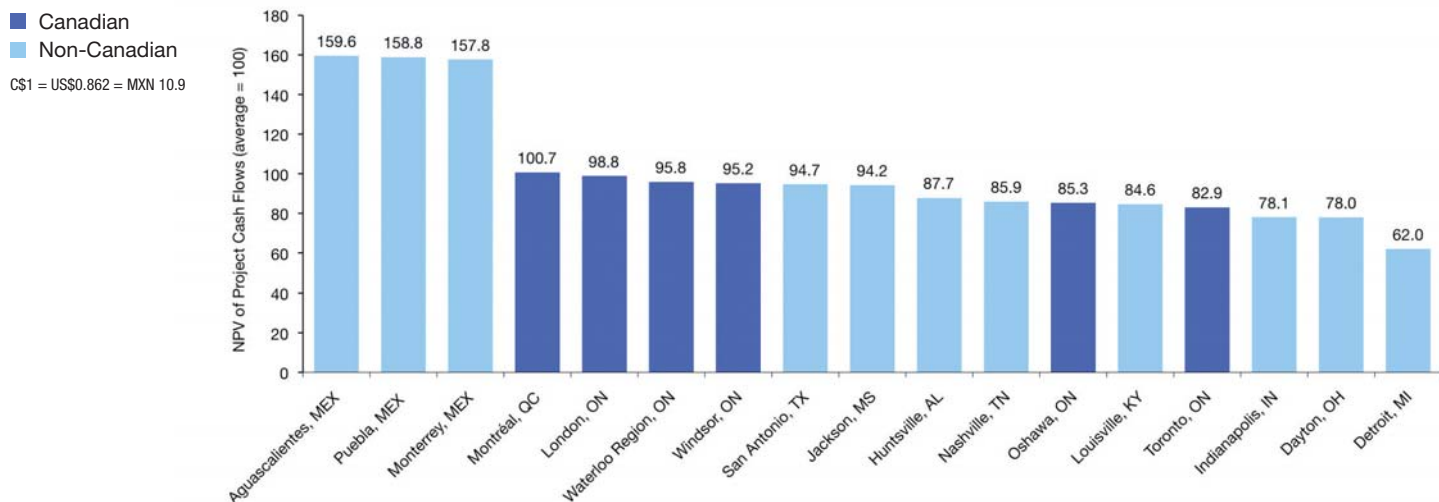




CANADA'S VALUE PROPOSITION

Canada is a strong player in the automotive manufacturing sector with key clusters in Southern Ontario and Montréal, Quebec. Combining financially attractive propositions with high-quality operating environments, Canadian locations surpass many other North American and Asian competitors.

COST ASSESSMENT*

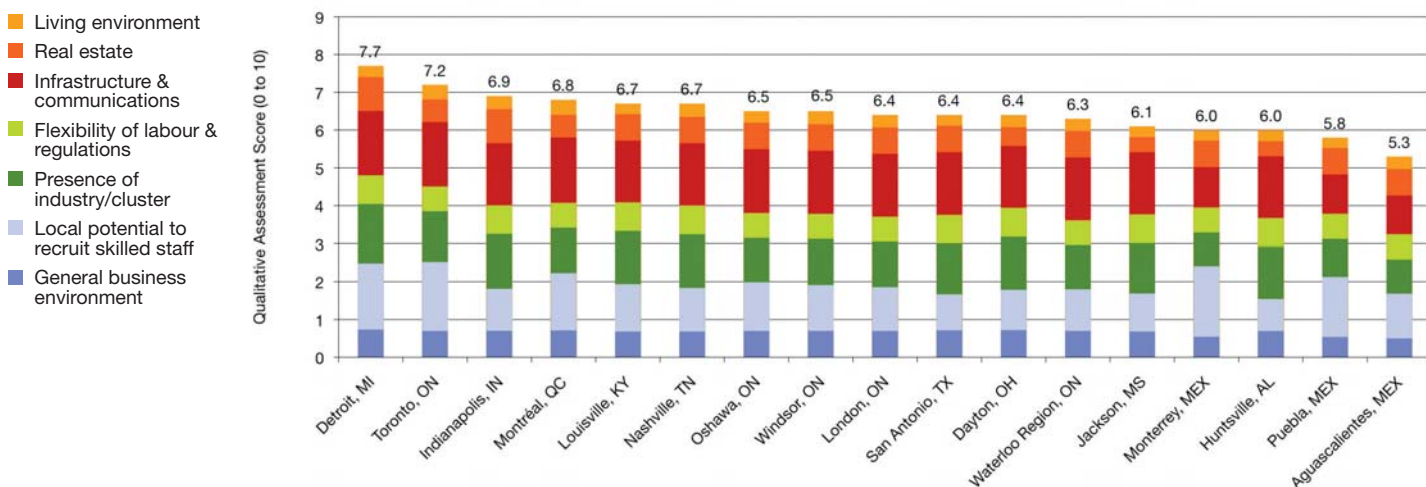


A better return on investment

Montréal, London, Waterloo Region and Windsor are some of the most cost competitive North American locations, offering higher profitability levels than any of their U.S. counterparts. This, combined with a superior qualitative operating business environment, makes Canadian auto clusters some of the

most competitive locations in the world to invest, grow and prosper. Although some locations, such as the Mexican cities of Aguascalientes, Puebla and Monterrey may offer higher levels of cost competitiveness, the qualitative assessment of the operating environment should also be taken into consideration.

QUALITATIVE ASSESSMENT OF OPERATING ENVIRONMENT*



Strong clusters with a wealth of experience

In North America, five Canadian cities rank in the top 10 in the qualitative assessment, underlining Canada's solid reputation in automotive manufacturing. The strong presence of experienced manufacturing and automotive industry employees in Ontario

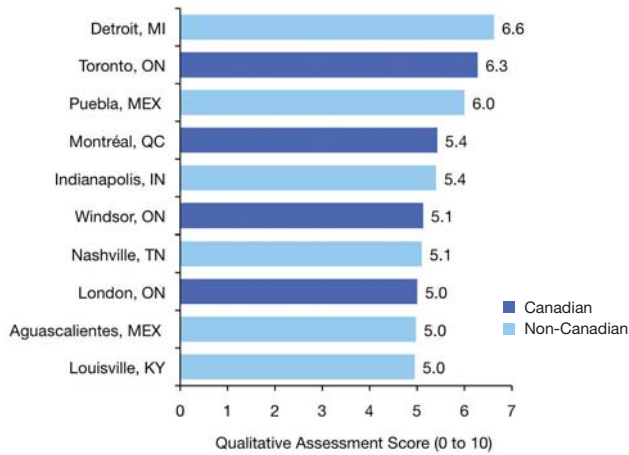
contributes to the high overall qualitative scores for Toronto, Oshawa, Windsor and London. Montréal also offers a large pool of skilled staff to draw from.

*Unless otherwise noted, graphs represent IBM-PLI assessment scores.

CANADA'S VALUE PROPOSITION



Presence of industry base (highest-ranking cities)*



Strong industry presence

Strong industry presence is a key investment driver for this sector, assessing the number of motor vehicle, motor vehicle parts, motor vehicle body and trailer manufacturing companies, and a number of recent transport equipment manufacturing investments.

Canadian cities rank highly among all North American competitors due to the large number of establishments currently manufacturing motor vehicle-related equipment. Based on 2005 data from Statistics Canada, Toronto and Montréal are home to 326 and 147 motor vehicle part manufacturing companies, respectively.

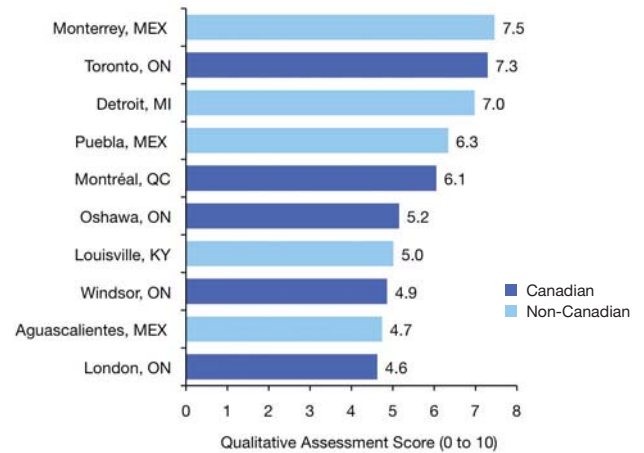
A deep talent pool

Canadian auto hubs surpass many U.S. and Mexican locations in terms of total employment count for motor vehicle manufacturing-related operations, which has a significant influence on the overall rankings. A large population of experienced automotive workers allows new manufacturing plants to ramp up their labour force and commence operations faster.

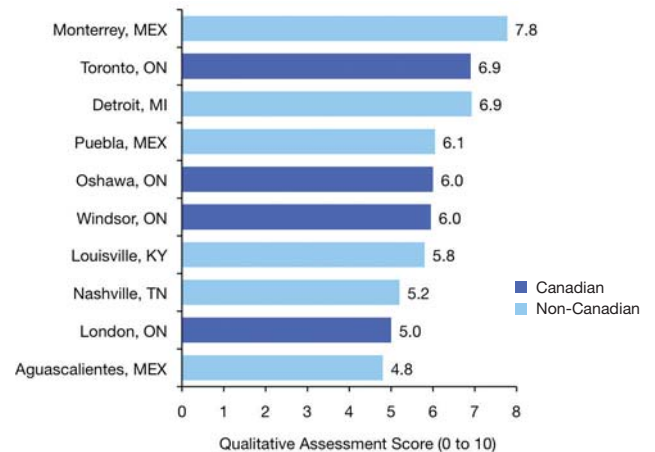
The local potential to recruit staff is the most important driver, determined by the size, quality and characteristics of the workforce. The size of the overall labour pool, the manufacturing worker pool, the number of employees with motor vehicle manufacturing-related experience, the size of the student population and the tightness of the labour market all influence the assessment of the talent pool.

The city of Montréal and Southern Ontario as a whole, host large pools of experienced automotive workers available for potential investors to recruit from. Toronto has over 30,000 motor vehicle parts manufacturing employees, and Windsor more than 10,000.

Local potential to recruit staff (highest-ranking cities)*



Experienced automotive employees (highest-ranking cities)*

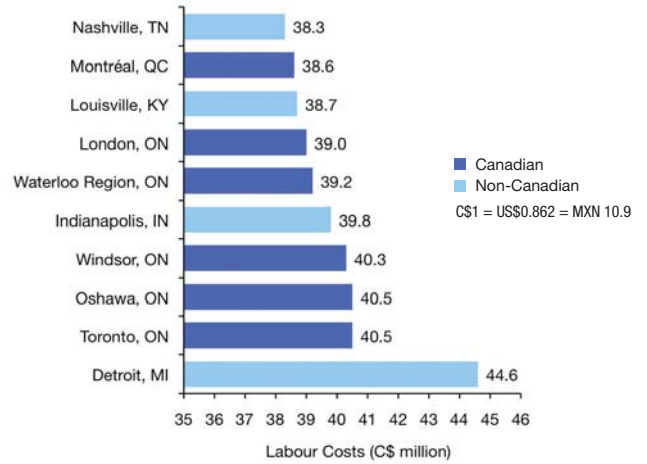


Competitive labour costs

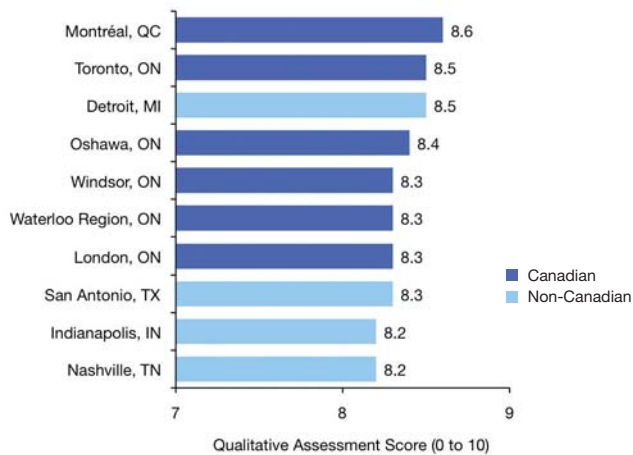
The calculation of the estimated annual labour costs for a typical automotive component manufacturing operation shows that Canadian locations offer competitive cost levels compared to many U.S. counterparts.

An important contributor to Canada's competitive labour costs stems from the lower costs of providing employee benefits. Canada's national healthcare system means that most medical insurance costs are publicly funded, rather than paid by the employer—which can result in savings for employers.

Estimated annual labour costs (selected cities)*



Infrastructure and communications (highest-ranking cities)*



World-class infrastructure

Access to markets and a good highway network are key investment drivers. This study considers highway and road access, road congestion, airport and port access, public transportation as well as power and telecommunications reliability.

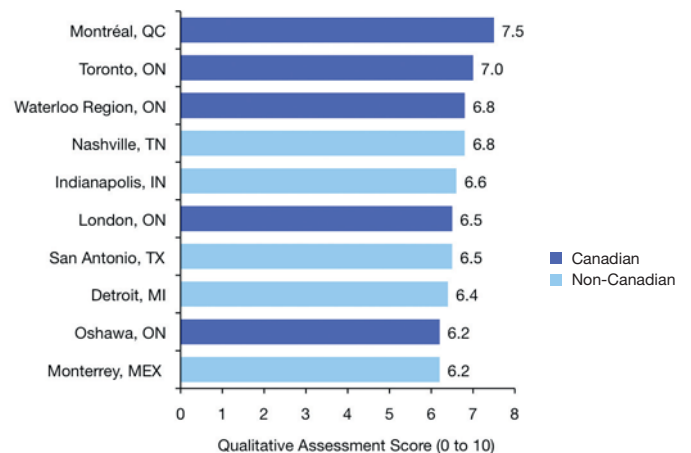
Canadian business hubs rank highly among North American locations due to their strong infrastructure, communications networks and accessibility by air and water. Canada's extensive railway network and uncongested roadways are well integrated with those of the United States, enabling cargo to move efficiently across North America.

Outstanding quality of life

In the competition to attract global talent, a highly rated living environment is an important consideration; it is also another advantage to locating in Canada. The cost of living and the perceived quality of life—the country's attractiveness to international recruits and expatriates—are assessed using international measures like the Mercer Cost of Living Survey, crime rate statistics and education indexes.

Canadian locations rank highly for quality of life, with the metropolitan regions of Montréal and Toronto topping the list. Canadian cities such as Waterloo, London and Oshawa combine a high quality of life with a relatively lower cost of living.

Living environment (highest-ranking cities)*



*Unless otherwise noted, graphs represent IBM-PLI assessment scores.

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- information and advice on setting up a business in Canada
- help in identifying a suitable place in which to invest
- assistance in developing a business case for your next investment decision

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