Canada

subsidiary agreement

GOVERNMENT OF CANADA REGIONAL ECONOMIC EXPANSION

NOVA SCOTIA DEPARTMENT OF DEVELOPMENT

A CANADA — NOVA SCOTIA SUB AGREEMENT UNDER THE GENERAL DEVELOPMENT AGREEMENT.

MICHELIN TIRE (CANADA) LTD.
CANADA/NOVA SCOTIA

MICHELIN

THIS SUB AGREEMENT SIGNED 7 JUNE 1980
IS SUBJECT TO AMENDMENTS

SUBSIDIARY AGREEMENT FOR ASSISTANCE TO

MICHELIN TIRES (CANADA) LTD.

THIS AGREEMENT made this 7th day of JUNE , 1980.

BETWEEN: THE GOVERNMENT OF CANADA (hereinafter referred to as "Canada"), represented by the Minister of Regional Economic Expansion

OF THE FIRST PART,

AND: THE GOVERNMENT OF THE PROVINCE OF NOVA SCOTIA (hereinafter referred to as "the Province"), represented by the Minister of Development

OF THE SECOND PART.

WHEREAS Canada and the Province signed a General Development Agreement (hereinafter referred to as "the GDA") dated September 12, 1974, to achieve the objectives set forth in Section 3 thereof;

AND WHEREAS an objective of the GDA is to encourage the expansion of viable, long-term employment opportunities within Nova Scotia;

AND WHEREAS a strategy is provided for in Schedule "A" to the GDA which includes the development of new or expanded employment opportunities throughout the province by the identification and implementation of appropriate development opportunities;

AND WHEREAS Canada and the Province have identified the enlargement of Michelin Tires (Canada) Ltd. in Nova Scotia as a development opportunity which will lead to the expansion, diversification and strengthening of the provincial economy;

AND WHEREAS the Governor in Council by Order in Council P.C. 1980-1546 of the 6th day of June, 1980, has authorized the Minister of Regional Economic Expansion to execute this Agreement on behalf of Canada;

AND WHEREAS the Lieutenant Governor in Council by Order in Council No. 80-769 of the 5th day of June, 1980, has authorized the Minister of Development to execute this Agreement on behalf of the Province.

NOW THEREFORE the parties hereto mutually agree as follows:

SECTION 1: DEFINITIONS

1. In this Agreement:

(a) "Company" means Michelin Tires (Canada) Ltd.;

(b) "eligible costs" means those costs defined in subsection 6.4;

(c) "Federal Minister" means the Minister of Regional Economic Expansion of Canada and includes anyone authorized to act on his behalf;

(d) "fiscal year" means the period commencing on April 1 of any year and terminating on March 31 of the immediately following year;

(e) "Management Committee" means the officials designated pursuant to subsection 5.1;

(f) "Ministers" means the Federal Minister and the Provincial Minister;

(g) "program" means the subject matter referred in subsection 4.1;

(h) "project" means a subdivision of a program as defined by the Management Committee;

(i) "Provincial Minister" means the Minister of Development and includes anyone authorized to act on his behalf.

SECTION 2: PURPOSE AND OBJECTIVES

2.1 The purpose of this Agreement is to enable Canada and the Province to undertake jointly the development opportunity referred to in subsection 4.1.

2.2 The objectives of this Agreement are:

(a) to enable the Company to employ, in its Nova Scotia facilities, the equivalent of an additional 1,850 persons;

(b) to induce the Company to make new capital investment in Nova Scotia of approximately $400 million; and

(c) to increase significantly the value added in the Nova Scotia manufacturing sector.

SECTION 3: STRATEGY

3.1 The strategy of this Agreement, as outlined in Schedule "B" attached hereto and forming part of this Agreement, is to meet the objectives listed in subsection 2.2 through the expansion of Michelin Tires (Canada) Ltd. operations at Granton and Bridgewater, Nova Scotia, and the establishment of a new Michelin Tires (Canada) Ltd. tire manufacturing plant at Waterville, Nova Scotia.

3.2 The strategy is consistent with that described in the GDA.

SECTION 4: SUBJECT MATTER

4.1 The three projects which are components of the program described in Schedule "A" attached hereto and forming part of this Agreement comprise the development opportunity agreed upon by the Ministers.

4.2 The Province will undertake, in accordance with this Agreement, to cause the Company to implement the program referred to in subsection 4.1.

4.3 This Agreement shall terminate on December 31, 1987, except that projects approved and commitments made in writing prior to this date shall continue in force until completion. However, Canada shall not pay any claim received after March 31, 1988.

4.4 All projects to be undertaken under this Agreement are to be consistent with the objectives and intent stated herein and, before being implemented, shall require joint approval by Canada and the Province through the Management Committee.

4.5 Each project proposed to be undertaken under this Agreement shall be described in an appropriate document in sufficient detail to allow proper consideration and approval by the Management Committee.

SECTION 5: ADMINISTRATION AND MANAGEMENT

5.1 Each of the Ministers shall designate one or more senior officials in equal numbers to be responsible for the administration of this Agreement. These officials shall constitute the Management Committee whose function it shall be to oversee the planning and implementation of the projects specified in Schedule "A" and to fulfill responsibilities identified for the Management Committee elsewhere in this Agreement. In the event of any disagreement within the Management Committee, the relevant matter shall be referred to the Ministers whose decision shall be final.

5.2 Canada and the Province agree to provide the Management Committee with all information necessary for the performance of its functions.

5.3 The signatures of at least two members of the Management Committee shall be sufficient verification for the purpose of this Agreement of any recommendation or decision made, or approval given by the Management Committee, provided that at least one of the members represents the Provincial Minister and another represents the Federal Minister.

5.4 The Management Committee may establish subcommittees to advise and assist it in its work, which subcommittees may include persons who are not members of the Management Committee.

Subcommittees will prepare, as requested, submissions and recommendations to the Management Committee on all matters relating to the planning and implementation of the projects in Schedule "A". Progress reports on physical and financial details of projects will be presented to the Management Committee with recommendations for any necessary action.

SECTION 6: FINANCIAL PROVISIONS

6.1 For eligible costs of jointly approved projects to which the development incentive applies under this Agreement, Canada shall contribute seventy-five percent (75%) and the Province twenty-five percent (25%).

6.2 The provision of financing by Canada and the Province for the implementation of this Agreement is subject to the Parliament of Canada and the Legislative Assembly of the Province of Nova Scotia having provided funds for such financing for the fiscal year in which such financing is required.

6.3 Notwithstanding anything in this Agreement, the total amount payable by Canada under this Agreement shall not exceed $42,000,000 and the total amount payable by the Province shall not exceed $14,000,000.

6.4 Subject to subsection 6.5, the eligible costs of the program to be implemented under this Agreement consist of the development incentive to be offered to the Company by the Province in accordance with subsection 7.1 hereof.

6.5 Neither the cost of land, nor the cost of acquiring land, or any interest therein, shall be considered to be an eligible cost under this Agreement.

6.6 This Agreement, and Schedules "A" and "B" thereof, may be amended in writing as agreed from time to time by the Ministers.

6.7 The Management Committee may make adjustments in and between the projects of the program specified in Schedule "A" of the Agreement during any fiscal year; provided, however, that such adjustments do not increase the total cost of the program.

6.8 If the number of direct jobs created, as referred to in Schedule "C" attached hereto and forming a part hereof (Michelin Agreement), averages less than 1,850 during the fourth year after the date on which the last facility is brought into commercial production, the Ministers may adjust the development incentive, as provided for in the Michelin Agreement. It is further understood that the Province will oblige the Company to continue to operate its existing facilities in Nova Scotia at substantially the same level of employment as at the time of being offered the development incentive, and for a period of at least 48 months after the relevant facility is brought into commercial production. If the Company fails to meet this requirement, the Ministers may adjust the development incentive and may require repayment of any amounts already paid thereon as provided for in the said Michelin Agreement.

SECTION 7: CONTRACT PROCEDURES

7.1 The Province agrees to offer to the Company a development incentive not to exceed $56,000,000 substantially in accordance with the terms and conditions contained in the Michelin Agreement.

7.2 In the event of acceptance by Michelin of the development incentive to be offered pursuant to subsection 7.1 hereof, the Province agrees to administer the Michelin Agreement in accordance with its terms, including those terms authorizing or empowering the Management Committee to carry out certain functions thereunder, and to take such steps as may be necessary, including litigation, to recover from Michelin any amount paid to Michelin to which the Company may not be entitled under the Michelin Agreement. Seventy-five percent (75%) of any amount so recovered by the Province shall be transmitted forthwith to Canada.

7.3 All public announcements shall be made jointly by Canada and the Province.

SECTION 8: PAYMENT PROCEDURES

8.1 When the Province is obliged under the provisions of the Michelin Agreement to make a payment to Michelin and has satisfied Canada that such payment has been made, Canada shall pay to the Province seventy-five per cent (75%) of such payment.

SECTION 9: INCOME TAXES

9.1 Canada agrees to take measures under Section 17 of the Financial Administration Act for a remission order to be issued according to which the amount to be paid to the Company pursuant to this Agreement shall in the hands of the Company be unconditionally exempted from tax under the Income Tax Act so as to be accorded the same treatment as an incentive under the Regional Development Incentives Act.

SECTION 10: RECORDS AND AUDIT

10.1 The Province shall ensure that a condition of the offer of a development incentive is that the Company maintains proper and accurate accounts and records relating to eligible costs and direct jobs created which shall be open to inspection and audit to the Province, Canada and their respective authorized representatives. Canada agrees to audit such accounts and records on behalf of the Province and to advise the Province when conditions have been satisfactorily discharged to permit payment of the development incentive, or a portion thereof.

SECTION 11: MONITORING

11.1 All substantive changes to the Michelin Agreement shall require the prior approval of the Management Committee.

11.2 The Management Committee or its representative(s) shall be permitted to inspect any project at reasonable times for the purpose of verifying or obtaining any other information concerning the project which may be required by the Federal Minister or the Provincial Minister.

SECTION 12: PUBLIC INFORMATION

12.1 Canada and the Province agree to cooperate in the development and implementation of a program of public information respecting implementation of this Agreement, and further agree to supply, erect and maintain on the direction of the Management Committee during the course of construction of the facilities, a project sign or signs consistent with federal/provincial identity graphics guidelines, and in both official languages, specifying that the relevant project is a Canada-Nova Scotia Regional Development Project, financed by contributions from the Department of Regional Economic Expansion of the Government of

Canada (and any other federal agency, where relevant), and the Government of the Province of Nova Scotia, or such other wording to the like effect as may be agreed upon by the Ministers.

12.2 Any public announcement of the measures covered and of the products generated by this Agreement, as well as any official opening ceremony for any project under this Agreement, where such ceremony is indicated and appropriate, shall be arranged jointly by the Ministers.

SECTION 13: GENERAL

13.1 No member of the House of Commons of Canada or the Legislative Assembly of the Province of Nova Scotia shall be admitted to any part or share of payments made pursuant to this Agreement or to any benefits to arise therefrom, nor shall such member undertake or participate in any study or analysis pursuant to a contract as a result of which Canada may be required to pay any amounts pursuant to this Agreement.

SECTION 14: EVALUATION

14.1 During this Agreement, Canada and the Province shall jointly effect an assessment of the program listed in Schedule "A" with regard to the stated objectives. Annual progress reports shall be submitted by the Management Committee to the Ministers on or before the annual meeting of the Ministers as prescribed under subsection 9.1 and section 10 of the GDA. In addition, Canada and the Province shall also jointly effect an evaluation of this Agreement with respect to the general economic and socioeconomic development of Nova Scotia.

IN WITNESS WHEREOF this Agreement has been executed on behalf of Canada by the Minister of Regional Economic Expansion, and on behalf of the Province by the Minister of Development.

IN THE PRESENCE OF	GOVERNMENT OF CANADA
Witness	Minister of Regional Economic Expansion
Witness	Minister of Labour
	GOVERNMENT OF THE PROVINCE OF NOVA SCOTIA
Witness	Minister of Development
Witness	Premier

CANADA/NOVA SCOTIA

SUBSIDIARY AGREEMENT FOR ASSISTANCE TO MICHELIN TIRES (CANADA) LTD.

SCHEDULE "A"

Program	Estimated Total Cost ($000's)	DREE Share ($000's)	Provincial Share ($000's)	Project Summary	Estimated Total Cost ($000's)	Sharing (Fed/Prov) Percent
I. EXPANSION AND ESTABLISHMENT OF MICHELIN FACILITIES	$56,000	$42,000	$14,000	a) Bridgewater	$ 6,500	75/25
				b) Granton	$ 7,000	75/25
				c) Waterville	$42,500	75/25

SUBSIDIARY AGREEMENT FOR

ASSISTANCE TO MICHELIN TIRES (CANADA) LTD.

SCHEDULE "B"

A. SCOPE AND COVERAGE OF AGREEMENT

This Agreement is intended to encourage and facilitate increased employment and incomes in the provincial economy. It is directed towards the secondary manufacturing sector; specifically, the establishment of new production facilities and products in Nova Scotia by Michelin Tires (Canada) Ltd. It is expected that the major impact of this Agreement will be felt in the medium-sized communities adjacent to the Province's growth corridor.

B. BACKGROUND

Since the start-up in 1971 of the two radial tire facilities in Bridgewater and Granton, Nova Scotia, the Michelin group has rapidly expanded its production capabilities in North America. The Nova Scotia facilities were expanded in 1972 and again in 1976, involving an investment of $64 million in fixed assets.

As a result of its experience in the European Economic Community (EEC) trading environment, the Michelin group has organized its North American operations on a rationalized basis, establishing world-scale production units specializing in a limited number of product lines and sizes. The Company imports or exports tires as required to service the balance of its market requirements. For example, in 1979, Michelin Tires (Canada) Ltd. exported 56 percent of its production. Its sales in the Canadian market were supplied 51 percent by Canadian production and 49 percent by imports from other Michelin group facilities. As tariffs on tires are gradually reduced under the MTN agreements, the Michelin group's strategy of rationalizing production should improve the Company's competitive position in North American markets.

C. OBJECTIVES AND STRATEGY

The objectives of this Agreement are:

(a) to enable the Company to employ, in its Nova Scotia facilities, the equivalent of an additional 1,850 persons;
(b) to induce the Company to make new capital investment in Nova Scotia of approximately $400 million;
(c) to increase significantly value added in the Nova Scotia manufacturing sector.

The North American tire market has experienced two significant trends in recent years; the rapid acceptance of radial tires, and increasing industry rationalization through the construction of world-scale plants.

The acceptance of the radial tire with its long life and energy saving properties has seen the market develop much faster than anticipated. The continued conversion from bias and bias belted tires to radials will place a heavy demand upon the radial tire manufacturers. It is the opinion of the Department of Industry, Trade and Commerce (IT&C) that the use of bias and bias belted tires will continue to decline and the market will demand and obtain radial tires. The demand for radial tires in Canada will be satisfied by imports if domestic production capacity is not increased. Domestic producers can only remain competitive in the international market by following a program of plant and product rationalization.

The Michelin group has successfully penetrated the North American tire market and presently holds a 9 percent to 10 percent share of the total Canadian market. It is expected to increase its market share to a projected 15 percent level. It is desirable that these sales be provided from domestic production rather than from imports. This proposal will reduce imports by $134 million.

This Agreement is consistent with and confirms the federal/provincial policy of establishing viable industry in regions of Canada with economic disadvantages.

The project will have a major impact upon the economic base of the Province of Nova Scotia. In addition, it will help offset the current problems inherent in the seasonal nature of much of Nova Scotia's industry.

This further expansion of Michelin's tire manufacturing operations in Nova Scotia will provide Canada with a world-scale operation. The proposed facilities will employ the latest technology and will be among the most modern in the world.

A total of 1,850 full-time direct jobs with a payroll of $49 million will be created. The majority of these jobs are in a semi-skilled or skilled category.

The Company provides extensive in-house training, thereby providing employment opportunities for a broad sector of the work force.

D. PROGRAM

Michelin Tires (Canada) Ltd. proposes to establish three new tire production facilities in the Annapolis Valley town of Waterville, Nova Scotia, to manufacture radial tires for passenger cars, trucks and off-highway vehicles. In addition, the Company proposes to undertake a volume expansion of its rubber mixing facility at Granton, Nova Scotia, and two expansions of its steel cord manufacturing facility at Bridgewater, Nova Scotia, to provide raw materials for the new facilities in Waterville.

The proposed projects for the two existing plants and the new complex at Waterville are summarized below:

($ Millions)

	Bridgewater	Granton	Waterville	Total
Land	-	-	$ 2.0	$ 2.0
Buildings-Cost	$ 3.0	$ 7.0	$ 83.0	$ 93.0
Machinery & Equipment	$ 43.0	$ 43.0	$219.0	$305.0
Total Cost	$ 46.0	$ 50.0	$304.0	$400.0
Employment (Increase)	220	120	1,510	1,850

Products

Bridgewater	- Expansion No. 1	- Steel tire cord
	- Expansion No. 2	- Steel tire cord
Granton	- Expansion	- Rubber mixes
Waterville	- New Facilities	- Passenger car tires
		- Off-highway vehicle tires
		- Truck tires

In summary, the projects at the three locations will involve a total capital investment in fixed assets of approximately $400 million, and the creation of 1,850 direct jobs.

E. EVALUATION

It is intended that a complete evaluation of the entire Agreement be undertaken at the expiry of this Agreement.