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Lower US Dollar Erodes Canada's Cost Advantage Globally, Reports KPMG

Corporate tax cuts, skilled labour, energy supply help offset effects of high dollar

(Toronto, ON – March 27, 2008) – The depreciated US dollar has eroded Canada's previous cost advantage and has challenged the country to become competitive in other ways, according to KPMG's 2008 *Competitive Alternatives* study that compares business costs in 136 cities in 10 countries in North America, Europe, and Asia Pacific. Canada and the United States now lead the G7 countries for affordable business costs.

Mexico, new to the 2008 study to allow a comparison among the North American Free Trade partners, is the least expensive place to do business, with costs approximately 20.5 percent below the US baseline, while Germany and Japan remain the most expensive countries in which to do business.

The results were determined using recent exchange rates, with the Canadian dollar valued at US\$1.00, up 17.4 percent from 2006. "With the Canadian dollar at par, Canada is challenged to maintain the competitive edge it once held," said Mark MacDonald, Global Director, Competitive Alternatives, KPMG. "Canada has to present a clear value proposition to businesses in other areas. One example of this is the federal government's recent cuts to corporate income tax rates, which are among the lowest for a wide range of operations among countries surveyed."

Among major Canadian cities, Montreal and Halifax have the greatest cost advantage relative to comparable US cities. In the past two years, business costs have risen most rapidly in British Columbia and Alberta, reflecting the western economic boom of recent years. Previously, Vancouver and Toronto were ranked as the most costly cities in Canada. Vancouver still holds the number one spot, but now it is followed by Calgary and Chilliwack, BC, then Toronto.

"What stands out in the 2008 survey is how strong Canada ranks globally in terms of the non-cost factors that were considered," said Glenn Mair, MMK Consulting, one of the study authors in association with KPMG. "Canada consistently ranks well when we consider environmental regulation, education attainment, housing affordability, labour force, and energy availability—all of which are important business location considerations."

The study measured 27 significant cost components that are most likely to vary by location, including labour, taxes, real estate, and utilities, as they are applied to 17 business operations, over a 10-year planning horizon. The study also compared data on a variety of non-cost competitiveness factors. The 6 month research program covered 136 cities in Australia, Canada, France, Germany, Italy, Japan, Mexico, Netherlands, the

United Kingdom, and the United States. For the first time, the study includes all 3 NAFTA countries and all 50 US. states, in addition to its traditional G7 coverage.

Comparison of Cost Indices Among Major Canadian Cities

CITY	COST INDEX 2008	COST INDEX 2006	COST INDEX CHANGE
Sherbrooke, QC	92.8	90.1	+2.7
Moncton, NB	94.9	91.1	+3.8
Fredericton, NB	95.3	91.5	+3.8
Charlottetown, PEI	95.8	91.7	+4.1
Quebec City, QC	96.3	92.6	+3.7
Halifax, NS	96.6	92.2	+4.4
Saskatoon, SK	96.7	92.8	+3.9
Winnipeg, MB	97.7	94.1	+3.6
Waterloo Region, ON	98.2	94.3	+3.9
Montreal, QC	98.5	94.3	+4.2
St. John's, NL	99.5	94.3	+5.2
Edmonton, AB	99.9	93.3	+6.6
Ottawa, ON	99.9	95.1	+4.8
Toronto, ON	101.5	96.5	+5.0
Chilliwack, BC	101.6	94.0	+7.6
Calgary, AB	102.0	94.7	+7.3
Vancouver, BC	104.2	96.9	+7.3

Business costs are expressed as an index, with the United States being assigned the baseline index of 100.0

Source: KPMG's 2008 Competitive Alternatives Study

Canada and International Comparison

Canada

- Canada statistically ranks 2nd overall and first among G7 countries for affordable business costs, with a nominal 0.6 percent cost advantage over the United States.
- Canadian corporate tax rates, incorporating future effects of the tax cuts announced in last October's mini-budget, are now moderately low in comparison to the US and a number of the other countries studied.
- Drawing on the data comparison of non-cost factors, Canada was strong in the following areas:
 - Canada ranks second in terms of environmental performance after France; it is perceived as a country with environmental laws that are most compatible with business competitiveness.¹
 - Total labour costs are lowest in Mexico by a significant margin; however, Canada ranks much higher than Mexico on quality of life issues, such as healthcare, crime rates and education, which are included in the study for the first time.

¹ International Institute of Management Development (refer report exh. 6.14)

- Globally, Canada ranks second for educational attainment and expenditures, and achieves top ranking in terms of educational outcomes.
- Canada is one of the top rated countries in terms of ethical business practices, ranking second for perceived low levels of corruption², while the US ranks eighth and Mexico last.

Other Countries

- Mexico ranks 1st among the countries studied, with business costs 20.5 percent lower than in the United States. This rating reflects Mexico’s status as the first emerging industrial country to be included in *Competitive Alternatives*.
- Canada, the US, and Australia rank 2nd, 3rd, and 4th, respectively, but with less than 1.0 percent separating them.
- France ranks 5th among the 10 countries examined, and has the lowest cost structure among the European countries studied.
- The United Kingdom, the Netherlands, and Italy are also very closely grouped, ranking 6th through 8th, with business costs between 7.1 and 7.9 percent above the US benchmark.
- Germany (ranked 10th) has the highest cost structure overall, with costs 16.8 higher than the US benchmark. Germany, along with Italy and Japan, also face the additional challenge of an ageing population, with the largest proportions of the population older than 44 and the smallest proportion under 25.

Cost-Competitiveness: 2008 and 2006 Rankings by Country

COUNTRY	RANK	2008 COST INDEX	2006 COST INDEX	Change in Cost Index
Mexico	1	79.5		
Canada	2	99.4	94.5	-4.9
United States	3	100.0	100.0	
Australia	4	100.2	92.3	-7.9
France	5	103.6	95.6	-8.0
United Kingdom	6	107.1	98.1	-9.0
Netherlands	7	107.3	95.7	-11.6
Italy	8	107.9	97.8	-10.1
Japan	9	114.3	106.9	-7.4
Germany	10	116.8	107.4	-9.4

Business costs are expressed as an index, with the United States being assigned the baseline index of 100.0
 Source: KPMG’s 2008 Competitive Alternatives Study

To access the full report, please visit www.competitivealternatives.com.

About Competitive Alternatives

² Transparency International (refer report exh. 6.13)

KPMG's 2008 *Competitive Alternatives* study provides an independent comparison of international business location costs in over 100 cities in 10 countries around the world. The study enables businesses executives to take a quick, initial scan of how business costs compare among a variety of cities in leading countries. It also assists KPMG professionals and economic developers in their work with businesses considering relocation, and enables policy makers to help determine the impact of a proposed tax and/or incentive policy change on the cost-competitiveness of their jurisdiction in relation to others. Detailed study results are available online at www.competitivealternatives.com.

About KPMG in Canada

KPMG LLP, a Canadian limited liability partnership established under the laws of Ontario, is the Canadian member firm affiliated with KPMG International, a global network of professional firms providing Audit, Tax, and Advisory services. Member firms operate in 145 countries and have more than 123,000 professionals working around the world.

The independent member firms of the KPMG network are affiliated with KPMG International, a Swiss cooperative. Each KPMG firm is a legally distinct and separate entity, and describes itself as such.

KPMG can assist clients as they consider expanding, relocating, or consolidating their business activities. The firm offers a variety global location and expansion services, ranging from strategic planning, to site analysis, to determining the availability of business incentives.

KPMG in Canada's Web site is at www.kpmg.ca.

-30-

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