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U.S. Leaps Over Europe As a Cost-Effective Business Cost Location, Says KPMG Report

Europe, Australia, and Canada lose ground because of lower U.S. dollar

(**Toronto, ON – Canada March 27, 2008**) – All of the developed countries have lost ground relative to the United States in terms of business operating costs, due to the dramatic weakening of the U.S. dollar. However, it is the Netherlands, Italy, Germany, and the United Kingdom that have seen the greatest increases in costs relative to the U.S., 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.

In Europe, the U.K. has benefited somewhat at the expense of continental Europe from the stronger appreciation that the Euro has seen relative to the Pound. France has the lowest cost structure of the European countries, with costs only 3.6 percent above the U.S. benchmark. Canada and Australia, which in previous years had benefited from a much higher U.S. dollar, now rank second and fourth globally, with business costs essentially equivalent to the U.S.

Mexico, new to the study, is the cheapest place to do business, with costs approximately 20.5 percent below the U.S. baseline. Japan remains one of the most expensive countries in which to do business, however, it has gained ground against other countries over the longer term due to low inflation rates and lower volatility of the yen.

“In previous years, the UK, Netherlands, Italy, and France all ranked lower than the U.S. benchmark, however, now the cost of business is considerably higher in these countries due largely to the depreciation of the U.S. dollar,” said Mark MacDonald, Global Director, Competitive Alternatives, KPMG. “However, within Europe there is strong evidence of intra-regional competitiveness. The opening of labor markets, more competitive tax rates, and investment in infrastructure implies that while Europe has shifted its position relative to the U.S., there is still strong competition among European countries.”

In Europe, costs in Paris are comparable with some large U.S. cities, while costs in Manchester, Frankfurt, and London are all significantly higher than in any of the North American cities studied. London represents the most expensive city examined, by a wide margin.

Toulouse, France—very competitive in aerospace, product testing, and clinical trials—offers the lowest costs among the mid-sized and large cities studied in Europe, and also offers non-cost benefits related to France’s strong environmental performance record, low crime rates, and good access to health care. Trailing Toulouse is Utrecht, Netherlands, which offers the lowest corporate income tax rates for a wide range of

operations, as well as excellent access to transportation infrastructure. Paris ranks third among the mid-sized and large European cities studied.

In North America, among the major cities studied, the Mexican cities of Puebla, Guadalajara, and Monterrey offer the lowest business costs, followed by San Juan, Puerto Rico. These cities rank ahead of a group of Southern U.S. cities that all offer moderately low business costs: Atlanta, Tampa, and Dallas-Fort Worth. At the other end of the spectrum, San Jose, California (Silicon Valley), and New York City continue to represent the most expensive North American cities in which to do business.

In Asia Pacific, Adelaide has lower costs than Melbourne, Brisbane, or Sydney, in Australia, with all of the Australian cities being relatively affordable compared to their peers elsewhere in the world. By contrast, in Japan, Yokohama (Metro Tokyo) has the third-highest cost structure among the major international cities studied, ahead of only Frankfurt and London.

This year, the study measured 27 significant cost components that are most likely to vary by location, including labor, 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.

New to the 2008 report is analysis of a wide variety of non-cost factors that influence the attractiveness of business and site locations. Site selection factors compared in the report include macro-economic indicators, labor markets, innovation, business and environmental regulation, quality of infrastructure, energy supply, and quality of life.

“Selecting the most favorable business location doesn’t always come down to merely dollars and cents. One of the key reasons the non-cost factors were included in this study is that factors such as education, skilled labor pool, and cost of housing, for example, may play a key role in the success of a business,” said Glenn Mair, MMK Consulting, one of the study authors in association with KPMG.

Country Comparison

- 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 industrialized country to be included in *Competitive Alternatives*.
- Canada, the U.S., and Australia rank 2nd, 3rd, and 4th, respectively, but with less than 1.0 percent separating them. The United States has experienced the greatest gain in cost competitiveness since 2006, improving its position significantly against all other countries due to the depreciation of the U.S. dollar.
- 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 U.S. benchmark.
- Japan is still a relatively high-cost jurisdiction, ranking ninth overall. However, Japan has gained some ground against other countries over the longer-term, due to its low inflation rates and the lower volatility of the yen vis-a-vis the US dollar.
- Germany (ranked 10th) has the highest cost structure overall, with costs 16.8 higher than the U.S. 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*

Currency Rates

CURRENCY	RATE	EXCHANGE FROM 2006
Australian Dollar	AUS \$1.14 per US\$	+17.9 %
Canadian Dollar	CA\$1.00 per US\$	+17.4%
Euro	€0.68 per US\$	+23.7%
Japanese Yen	¥111.27 per US\$	+5.4%
Mexican Peso	10.87 per US\$	-1.5%
United Kingdom Pound	£0.50 per US\$	+14.4%

Source: KPMG Competitive Alternatives 2008 Study

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

About Competitive Alternatives

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

KPMG is a global network of professional firms providing Audit, Tax, and Advisory services. We operate in 145 countries and have more than 123,000 professionals working in member firms around the world. Our purpose is to turn knowledge into value for the benefit of our clients, our people, and the capital markets. Our member firms aim to provide clients with a globally consistent set of multidisciplinary financial and accounting services, based on deep industry knowledge.

Our values determine how we behave, with clients and each other. They define what we stand for and how we do things, helping us to work together in the most effective and fulfilling way. This enables us to create a strong organizational culture—consistently—throughout the network.

We play an important role in the capital markets, and are highly active in supporting positive reform within our industry to strengthen credibility and confidence. We believe corporate social responsibility is at the heart of all great organizations, and are committed to making a real difference to the communities in which we operate.

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