



Investitions- standort Kanada



Analysen und Ansichten
deutscher Unternehmen
in Kanada



Investing in Canada



Trends and opinions
of German companies
in Canada



DEUTSCH-KANADISCHE INDUSTRIE- UND HANDELSKAMMER
CANADIAN GERMAN CHAMBER OF INDUSTRY AND COMMERCE INC.
LA CHAMBRE CANADIENNE ALLEMANDE DE L'INDUSTRIE ET DU COMMERCE INC.

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The Report

Investing in Canada

Trends and Opinions of German Companies in Canada

Is published by the

CANADIAN GERMAN CHAMBER OF INDUSTRY AND COMMERCE INC.

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We would like to express our appreciation to the companies that participated in the survey.

About the Chamber

The Canadian German Chamber of Industry and Commerce - with its head office in Toronto and branch offices in Montreal and Vancouver - is a non-profit bilateral business organization that fosters trade and investment relations between both countries. The Chamber has over 500 members in Canada and Germany and a staff of 23 full-time employees.

The Chamber is part of a worldwide network of 117 offices of bilateral German chambers, delegates and representatives with more than 1,400 full-time experts in 80 countries around the globe. All these countries together count for more than 98% of Germany's foreign trade and investment.

Like all other German chambers abroad, the Canadian German Chamber is affiliated with the Association of German Chambers of Industry and Commerce (DIHK) in Berlin, the central organization of all 82 chambers of industry and commerce in Germany with about three million member companies (membership is compulsory for every company in Germany).

The Canadian German Chamber acts as the German Trade Commission in Canada but on a bilateral basis. The Chamber not only promotes German foreign trade and investment with and in Canada but also Canadian foreign trade and investment with and in Germany.

Field of Expertise

The Chamber's field of expertise covers all aspects of trade and investment between Canada and Germany - expertise that you, too, have at your disposal. Be it general information on Germany, on trade related issues or information of a legal or statistical nature - you will find it all at the Canadian German Chamber.

Whether you are looking for products from Germany to complement your product line or whether you are considering selling your own products or services to Germany, the Chamber is able to put you in contact with the right partner in Germany.

The Chamber's general mandate is defined below, resulting in a wide range of customized services:

- Supplying economic information;
- Advising companies on how to do business in the other country;
- Arranging business contacts;
- Acting as spokesperson for the members;
- Lobbying on behalf of individual firms or the business community;
- Marketing and selling activities for trade fairs, government agencies, associations etc.;
- Staging events, congresses and symposia.

Services of the Chamber are mostly free for its members, non-members pay fees according to the Chamber's fee schedule.

Objective of the Survey

Investment decisions are of growing interest - not only for the companies involved, their shareholders and employees but for whole regions and indeed countries. Statistical offices worldwide report on investments and governments of all levels take a keen interest in who invests where and why.

German investment in Canada has a long history. According to the information the Chamber received, one of the first German companies to open shop in Canada was Siemens, which was incorporated under federal charter in 1912 and started selling medical devices. Today, German companies employ about 95,000 people in Canada.

According to figures from the Deutsche Bundesbank and the German Ministry of Economics, the accumulated German investment in Canada amounted to over €11 billion at the end of 2002. German investment is, therefore, a certain factor in Canada's economy.

According to the Chamber's files, there are about 450 German subsidiaries with approximately 650 offices in Canada, engaged in manufacturing, sales and distribution (including export and import), financial services, and other services. Statistics Canada lists roughly 1,500 German subsidiaries in Canada but includes non-performing "number companies" which are often established to administer private German real estate investment. These companies were not subject to this survey.

The objective of the survey was to gain a detailed picture of the involvement of German-owned companies in Canada, and to find out about the companies' experiences and plans for their future operations in Canada. The focus was mainly on investment plans, the comparison of the German and the Canadian tax systems, the regulatory environment in both countries, the economic outlook, company strategies and the productivity and profitability of the Canadian operations as well as labour conditions.

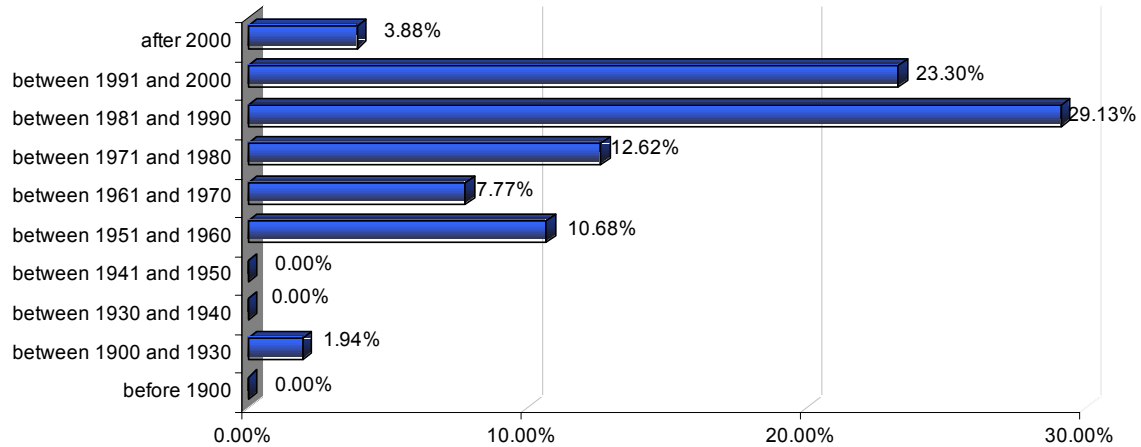
This survey is the third in a line of similar ones undertaken from 2001 through to today. The Chamber believes that this survey gives a very good overall picture of the status and the general outlook of the development of German investment in Canada.

Sample Method

A written questionnaire (included at the end of the report) was used to carry out the survey. The questionnaire was sent in the month of August to 340 chief executives of selected German-owned companies of whom 104 replied, representing a response rate of 30.5%.



German Operations in Canada



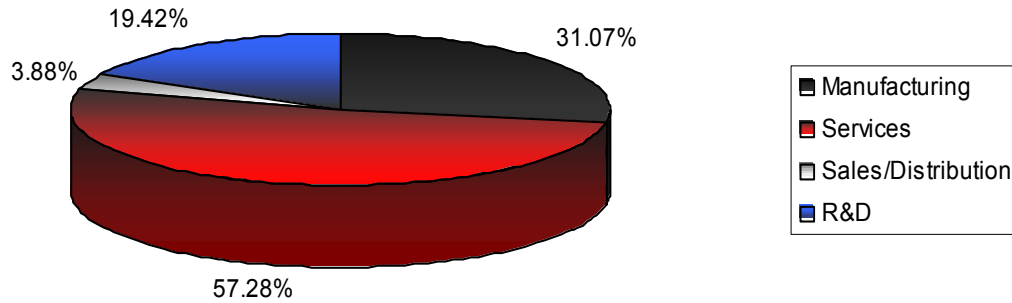
The first significant wave of German investment came between 1951 and 1960, when Germany's large enterprises started to open shop again after the second World War. During that decade, subsidiaries of well-known German companies were established in Canada: Lufthansa, Mercedes-Benz, Volkswagen, BASF, Hoechst, Kuehne & Nagel, Schenker, Melitta, Leitz, and others.

The second wave from about 1971 to 1990, was dominated by small and medium-sized family-owned companies, the famous German "Mittelstand", who looked, first and foremost, for a safe haven for the family business and capital, and, secondly, for new markets in North America. It was still the era of the Cold War, and conservative and concerned proprietors of such companies wanted to be on the safe side.

After Germany's reunification in 1990 and with the formation of NAFTA in 1994, German companies looked at the North American market from a straight business point of view and invested in Canada to establish a bridgehead in North America not only for the Canadian but also for the U.S. market.



Fields of Activity



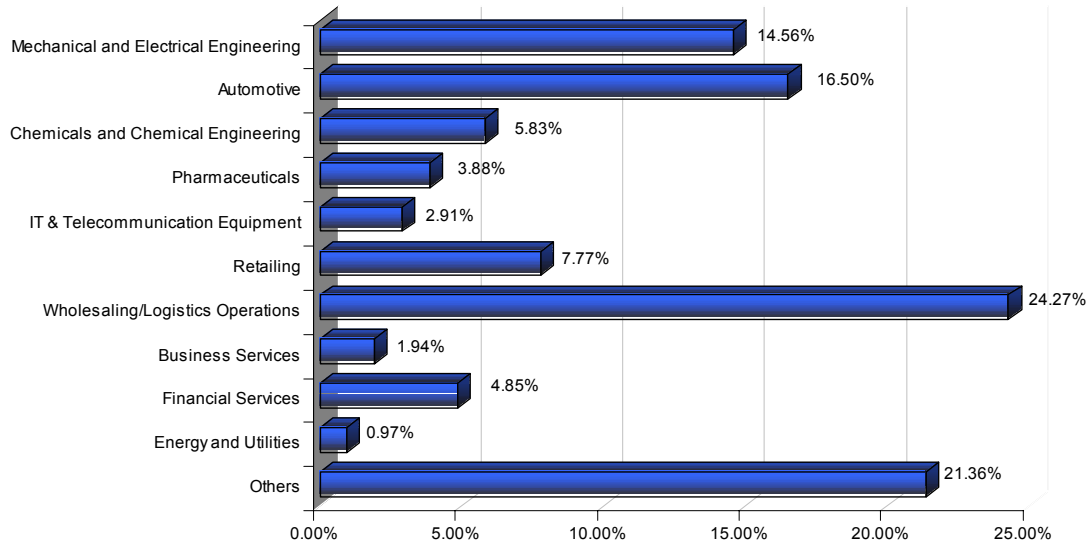
Most German companies in Canada are sales/distribution offices (57%). However, an important number of establishments are manufacturing companies (31%). Often, of course, German subsidiaries are active in both areas.

20% of the German companies queried are service companies.

4% of responses came from companies that named research & development (R&D) as their main function.



Sector Activities of German Companies in Canada

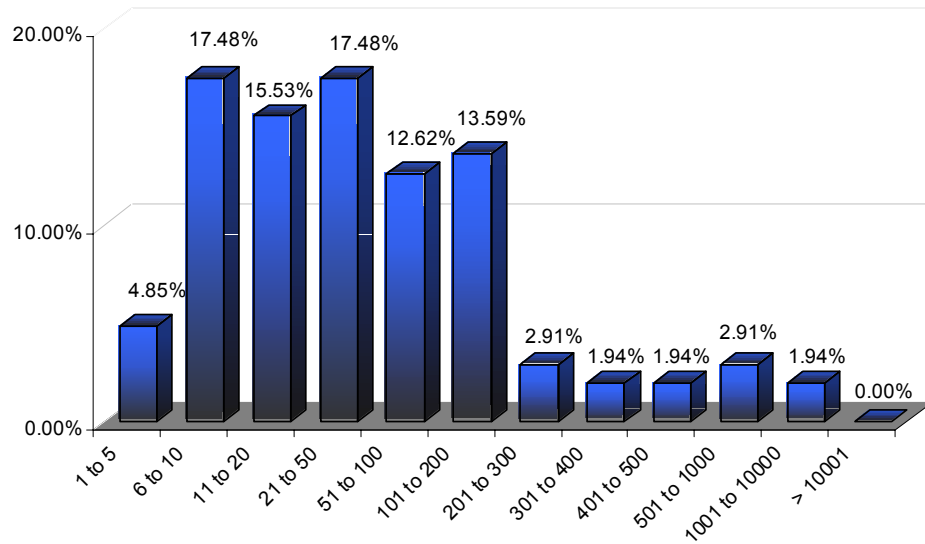


21% of the companies queried list themselves under “Others”. The following sectors fall under the fields of:

- Mining
- Construction
- Divers equipment manufacturing
- Recycling
- Food industry
- Packaging
- Agriculture and related products



Number of Employees



Mirroring their German origins, where "Mittelstand" companies predominate, 82% of all companies surveyed employ no more than 200 people with the different categories rather evenly represented. Only really small firms (< than 6 employees) are underrepresented.

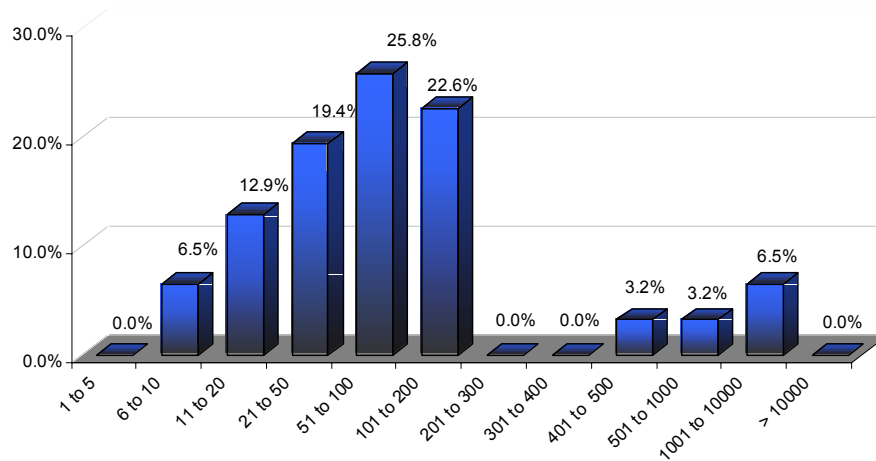
12% of the German-owned companies surveyed employ more than 200 people.



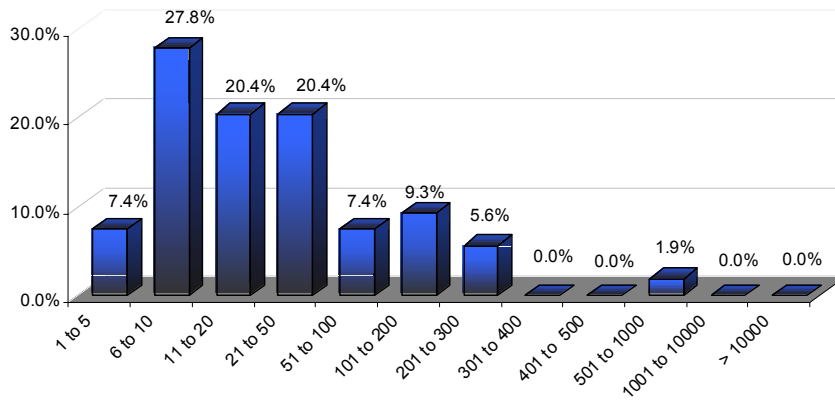
Industrial Sector Breakdown

A breakdown of employment by sectors gives an additional insight into the German presence in Canada. The following graphics show how the numbers are spread within each sector:

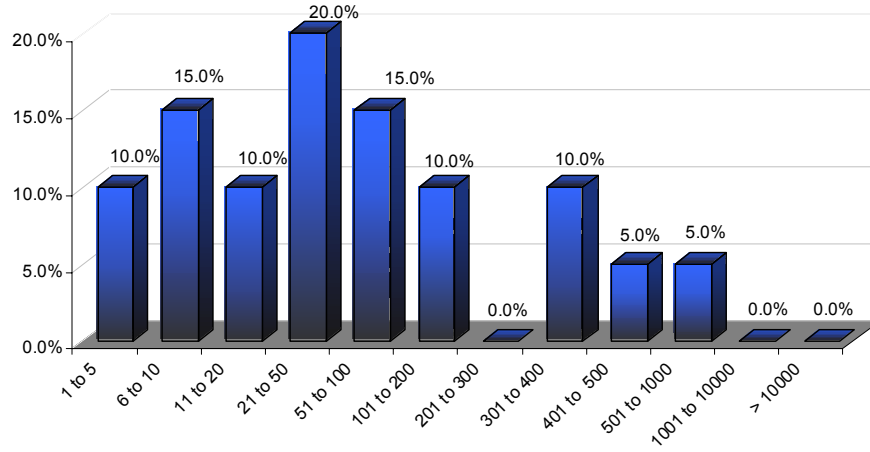
Manufacturing



Sales/Distribution



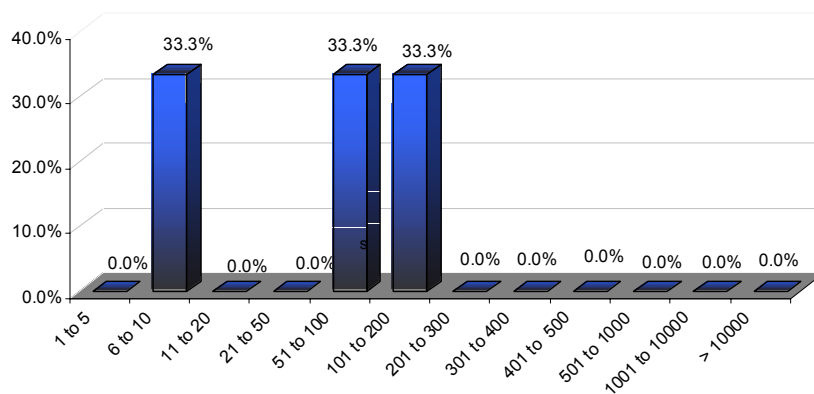
Services



New: R & D

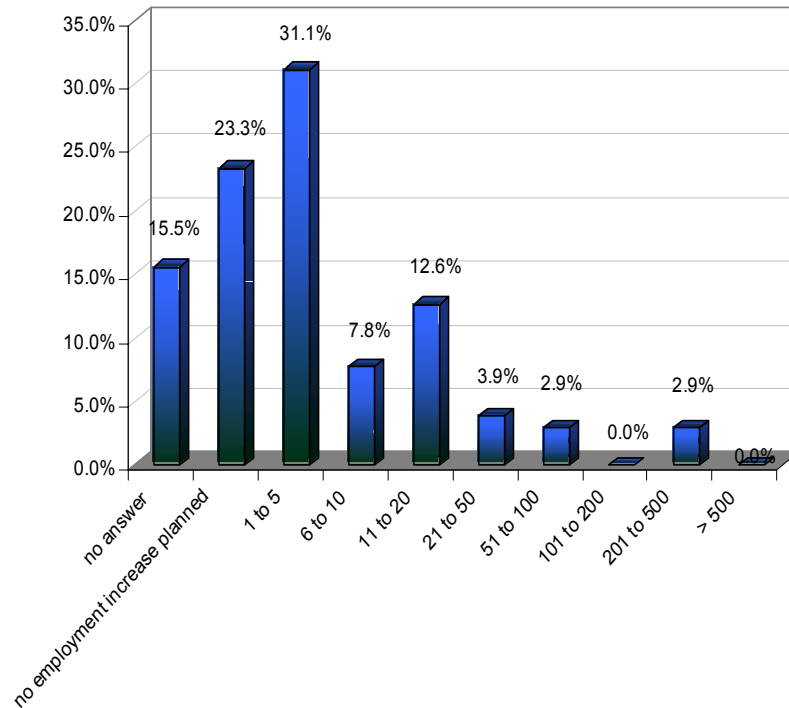
Companies that have come to Canada to do research & development employ the following:

R&D





Development of Workforce Over the Next 3 Years



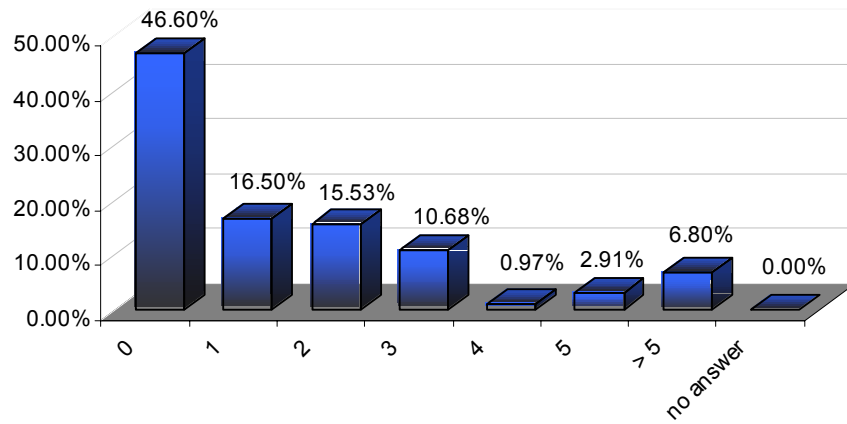
This is quite a change from last year: 23% of the companies questioned do not foresee hiring new personnel in the near future.

In 2002 things were quite different: 68% wanted to hire up to 20 new employees. This year the figure is only 51.5%. 22% intended to even hire up to 100 new employees. Only 7% do so now.

Only large enterprises seem to be unperturbed: 3% intend to recruit up to 500 new employees (4% did so last year).



Expatriates from Germany

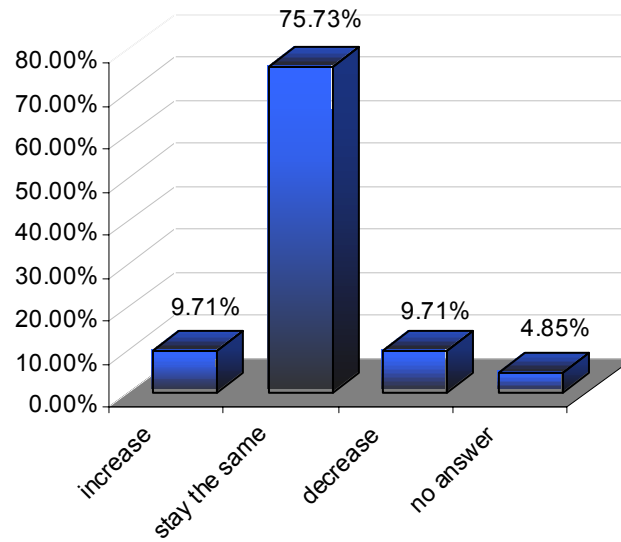


This year's survey confirms last years' findings: the majority of all companies queried employ no expatriates from Germany, and no company employs more than 10 expatriates from Germany.



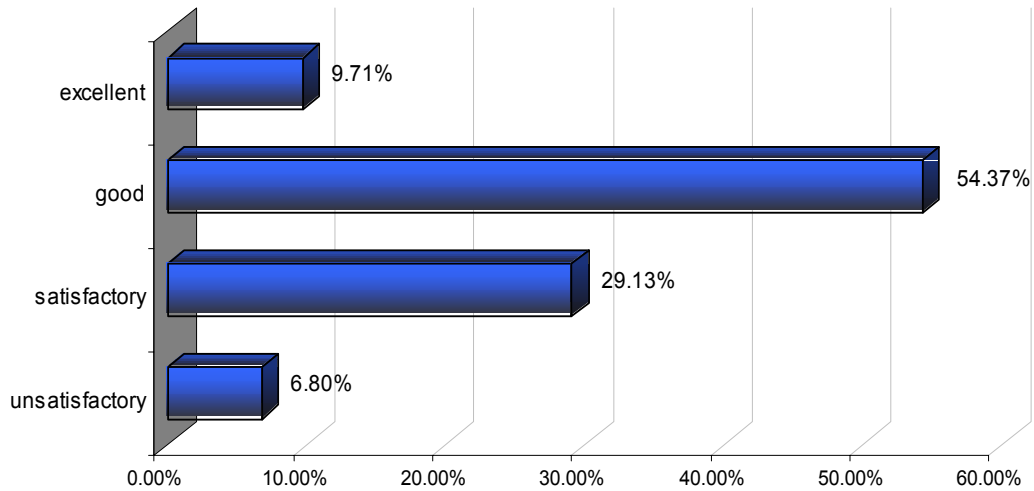
Outlook for the Future

The number of expatriates from Germany is not likely to increase. 76% of the companies expect the number of expatriates from Germany to stay the same over the next few years. An equal number (10%) think that the numbers will either increase or decrease. The rest of the respondents did not answer this question.





Canadian Economic Outlook for the Next Few Years



If the figures do not match those of last year they reflect the changed economic circumstances. While still at the top of G-7, the high expectations we once all had for 2003 will not be realized.

Still, 93% of the companies queried view the economic outlook for Canada over the next few years as “satisfactory” or better (98% did so in 2002).

Two-thirds (64%) of those questioned see the outlook as “good” or “excellent” (76% in 2002).

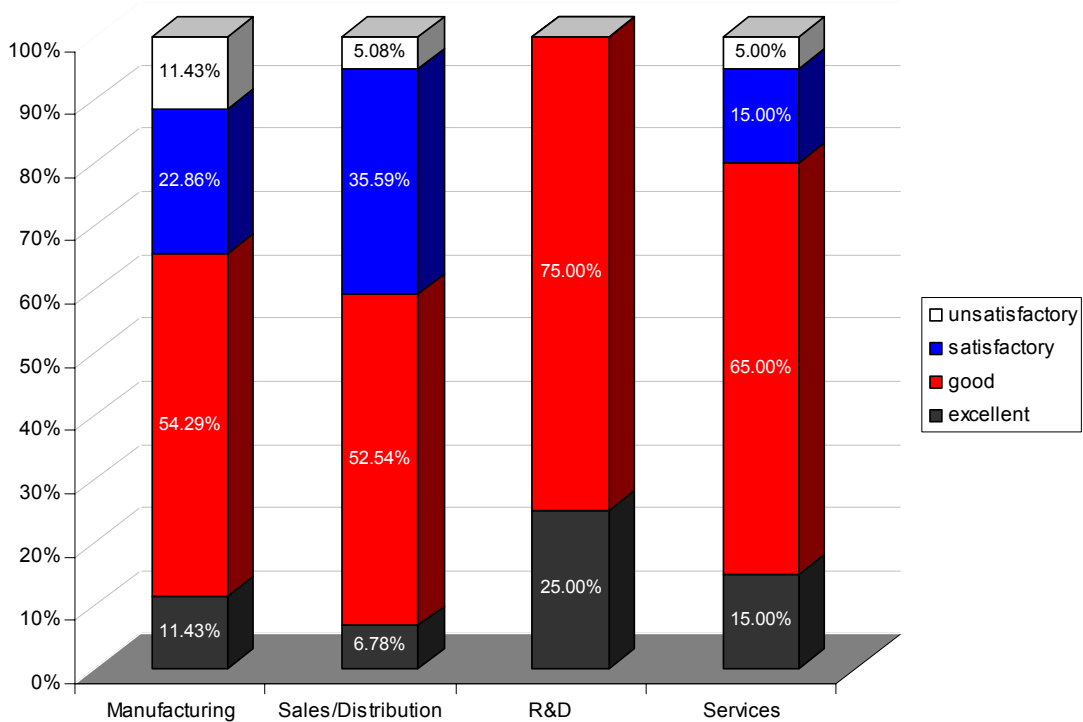
Clearly more companies expect “unsatisfactory” results. 7% think so as compared with less than 1% in 2002.



Industrial Sector Breakdown

The graphs below provide a breakdown of the responses regarding the economic outlook for each respective sector:

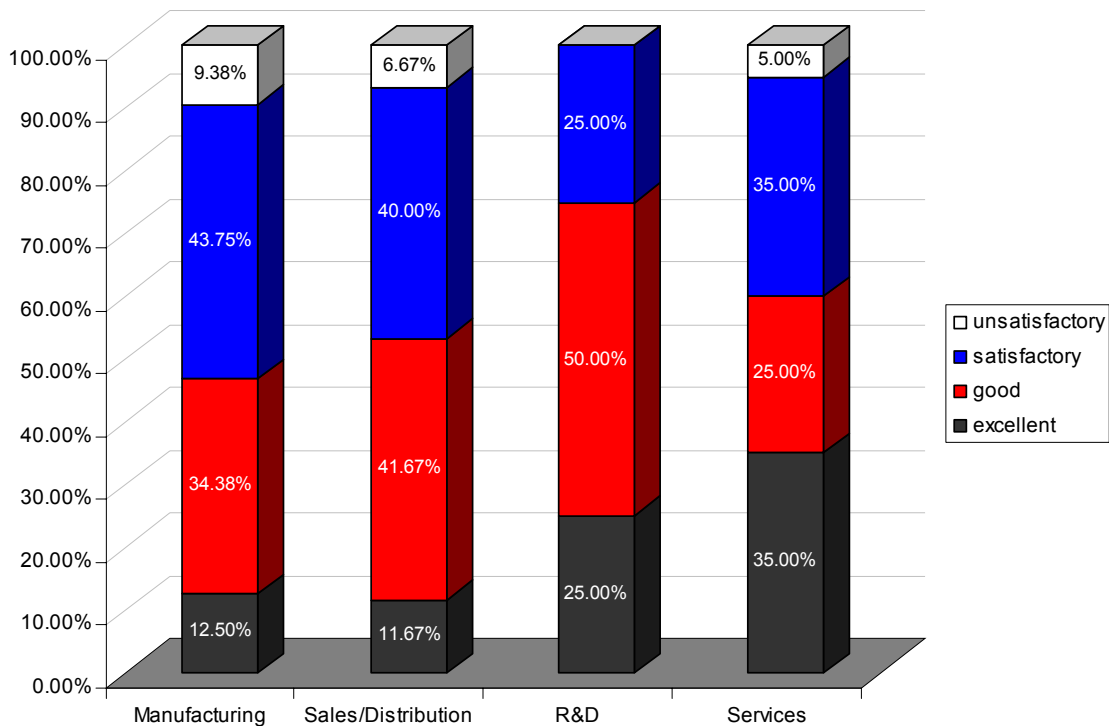
Outlook per sector	Manufacturing	Sales/Distribution	R&D	Services
excellent	11.43%	6.78%	25.00%	15.00%
good	54.29%	52.54%	75.00%	65.00%
satisfactory	22.86%	35.59%	0.00%	15.00%
unsatisfactory	11.43%	5.08%	0.00%	5.00%





Outlook of Each Industrial Sector for Its Own Sector

Outlook per sector	Manufacturing	Sales/Distribution	R&D	Services
excellent	12.50%	11.67%	25.00%	35.00%
good	34.38%	41.67%	50.00%	25.00%
satisfactory	43.75%	40.00%	25.00%	35.00%
unsatisfactory	9.38%	6.67%	0.00%	5.00%



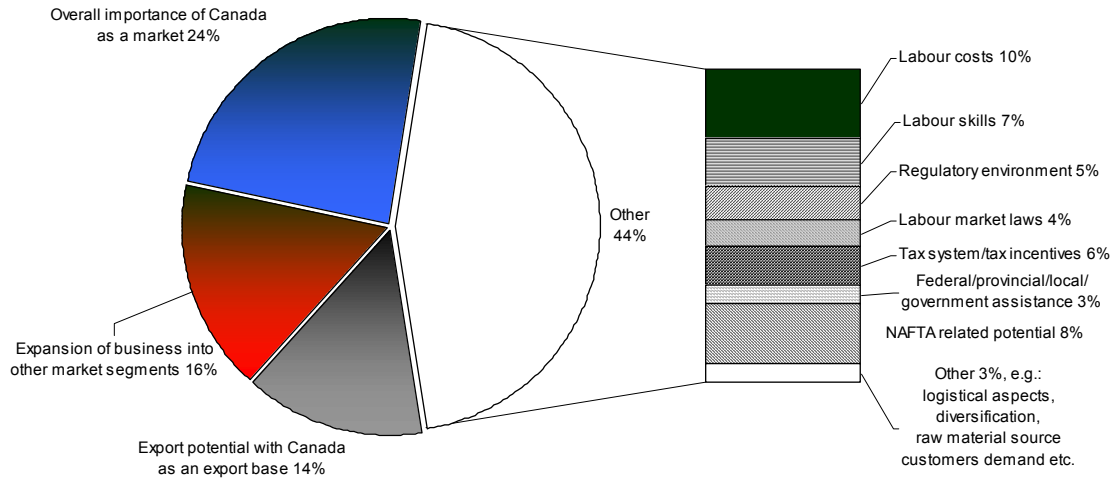
These results differ considerably from the previous page: When evaluating their own sector – the one each is supposed to know best – results are much better than when looking at the overall picture.

This is especially true with regard to Services: 35% of service sector companies view their future as “excellent” and 25% as “good”. Out of all companies together only 15% rate the outlook as “excellent” and 65% as “good”.

R&D companies also indicate quite some differences: While all companies look upon this sector very favourably; R&D itself seems to be much more cautious.

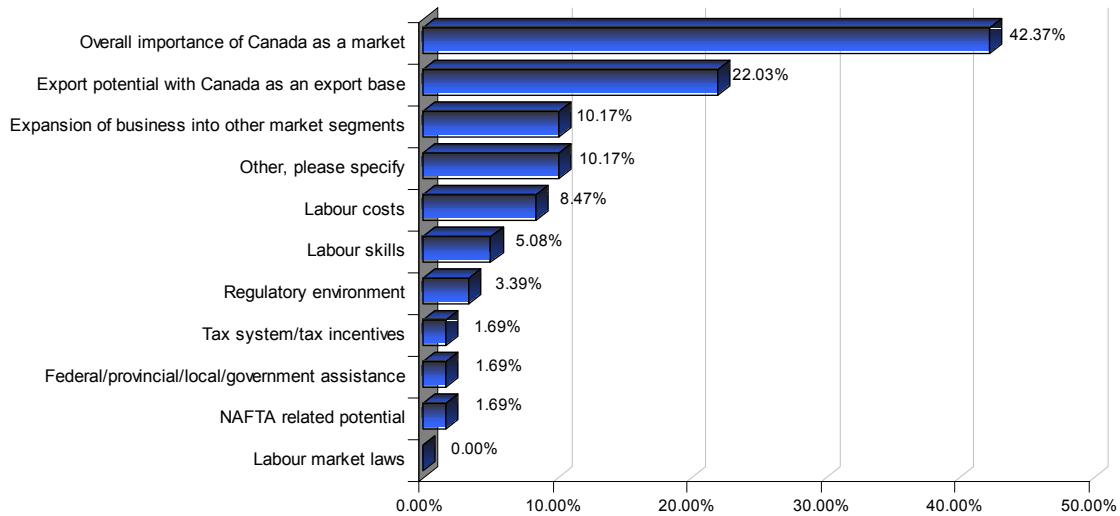


Reasons for Original Canadian Investment



New: We asked what the reasons were for the original investment into Canada. The above graphic shows all of the reasons submitted – without weighting them.

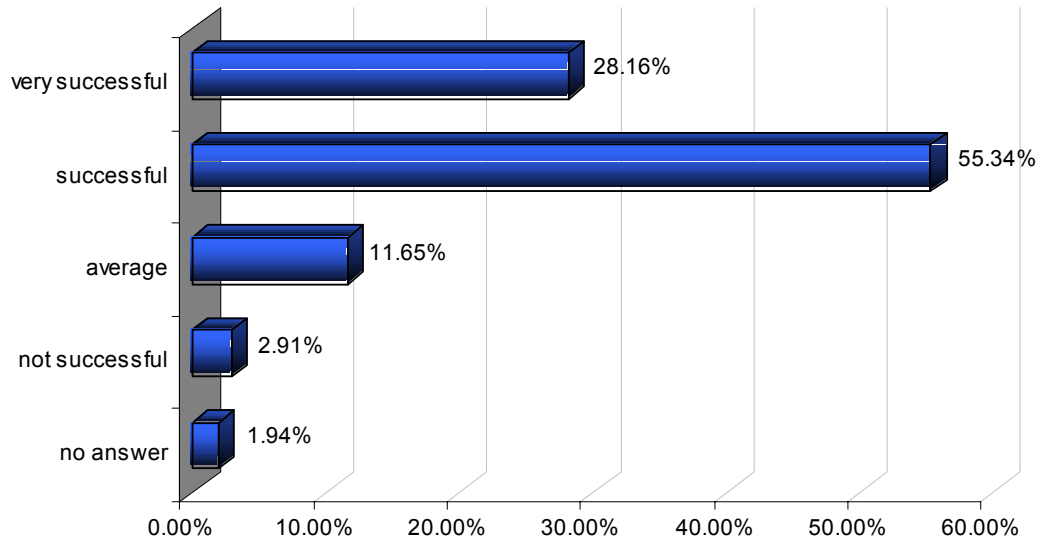
After evaluating the importance of each response submitted, the following answers were listed as number one by the respondents:



The reason most often listed is the “importance of Canada as a market” (42%). The second most frequently named reason is the possibility to service the US market from the Canadian establishment (22%). NAFTA did not play an important role in this context since most of the companies questioned were founded before 1994, the date when NAFTA was formed.



Success of Canadian Investment

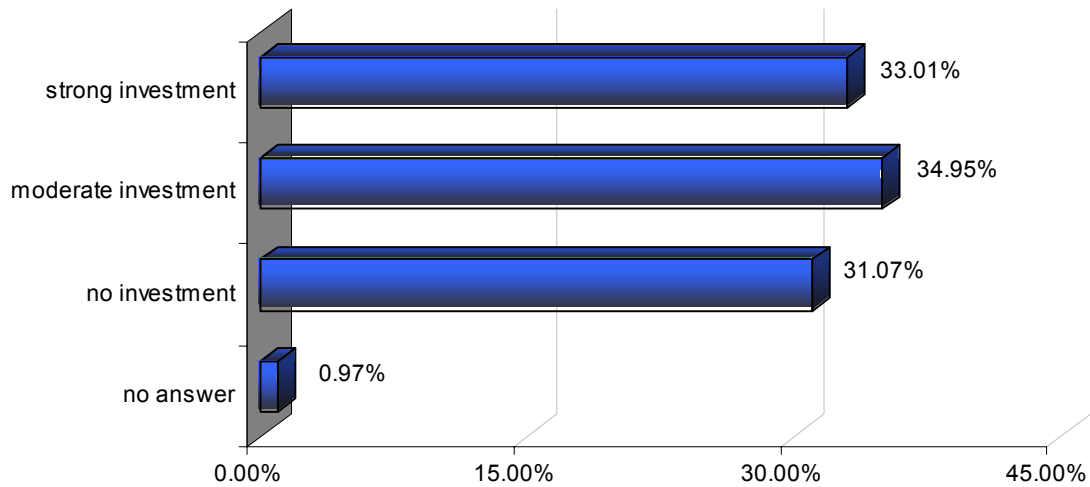


As in the previous survey, German companies returned thoroughly positive responses to the question regarding the success or failure of their Canadian investment: Even though those who voted “very successful” dropped to 28% from 36%, those who saw their investment as “successful” came in at 55% up from 47% in 2002. The total of the two categories staid where it was last year: 83% of the German investors are happy customers indeed.

Like last year, very few companies (3% down from 5.5% in 2002) judge their investment as less successful and (12% after 11% in 2002) think that their investment is average.



Investment Plans for 2003



Somewhat weaker than the year before, 33% of German companies in Canada plan for strong investment in 2003 (compared to 42% in 2002 and 30% the year before). A further 35% still plan moderate investments (33% in 2202).

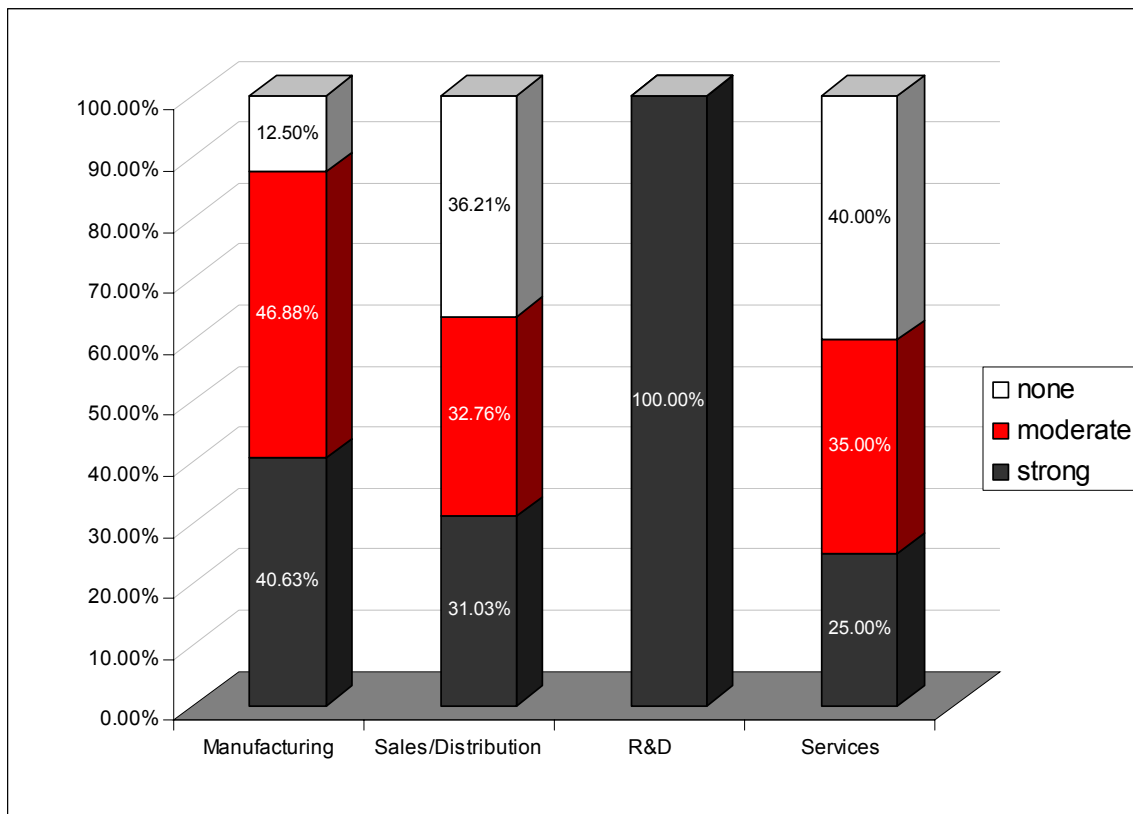
31% (up from 21% in 2002) of the respondents do not intend to invest in 2003.



Industrial Sector Breakdown

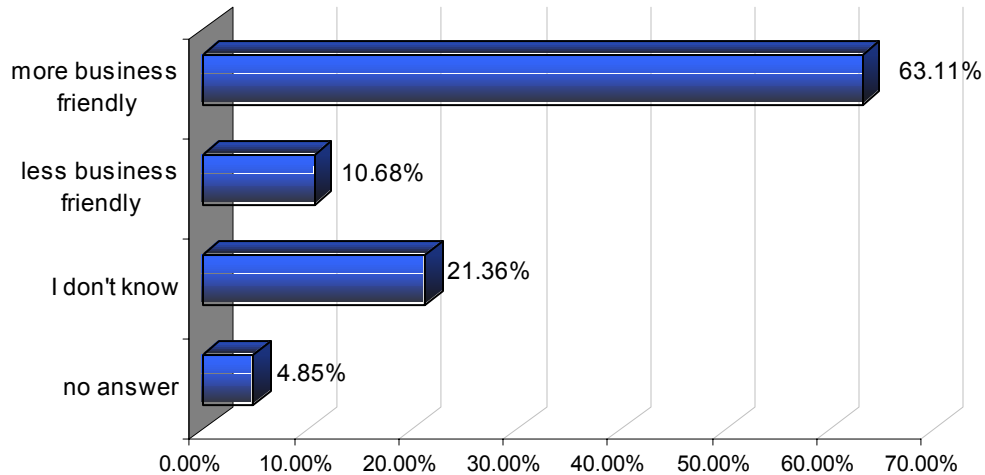
Investment plans differ by sector. Here is how the numbers break down for each category:

Planned investment	Manufacturing	Sales/Distribution	R&D	Services
strong	40.63%	31.03%	100.00%	25.00%
moderate	46.88%	32.76%	0.00%	35.00%
none	12.50%	36.21%	0.00%	40.00%





Regulatory Environment in Canada and Germany



Canada's positive image with regard to its regulatory environment rests unabated. 63% judge it's business environment "more business friendly" than Germany's. This compares with 44% last year and 33% in 2001.

Still, 11% of all companies think that the regulatory environment is more business friendly in Germany (7% in 2002).

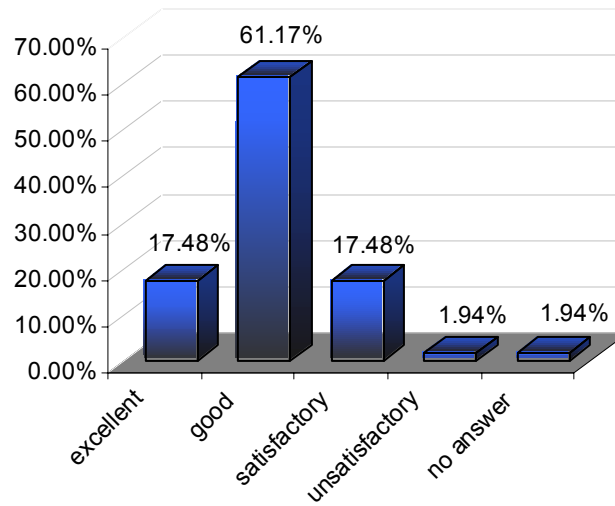
It will be interesting to see whether the planned structural changes in Germany will have an effect on these opinions.

This year, once again, the number of persons that answered with "don't know" is considerable.

Our survey for the reasons behind this answer – and that goes for all questions that asked for a comparison with the situation in Germany - confirmed our earlier suspicion: Many German subsidiaries nowadays are directed by Canadians who do not have detailed knowledge of German rules and regulations. One respondent put it this way: "not my problem", and right he is.



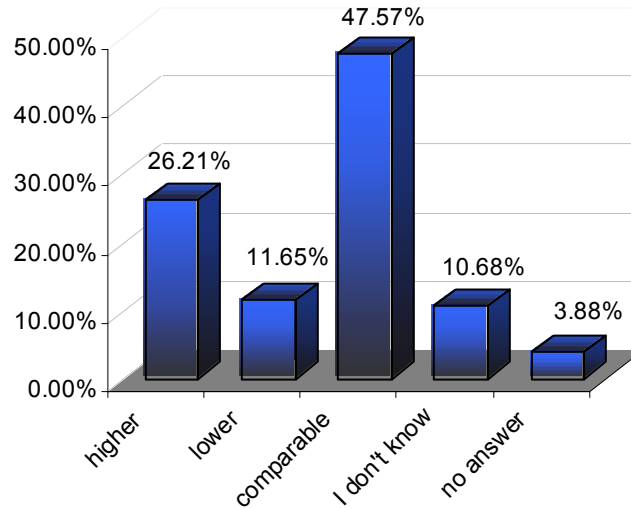
Labour Productivity in Canada



As in previous years, German companies in Canada are very happy with the labour productivity of their Canadian operations. 78% describe it as “good or excellent” (70% in 2002). 17.5% (19% in the previous year) are at least satisfied with the productivity of their Canadian operations. Only 2% (unchanged from 2002) are not satisfied.



Labour Productivity: A Comparison



Comparable to last year, 74% of companies with similar operations in Germany judge their Canadian labour productivity as “comparable” or better.

Remarkable is the decline in companies that judge it to be lower compared to Germany (12% instead of 21% last year).

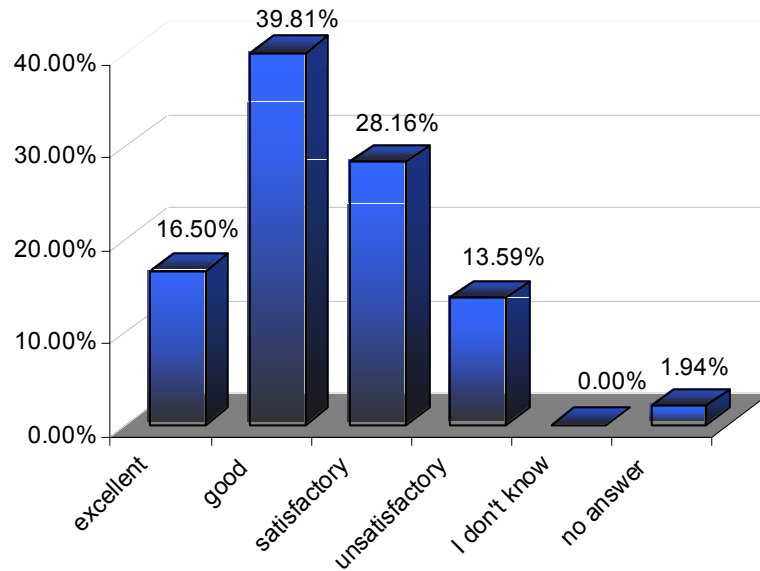
15% did not answer or responded with “don’t know” (after 20% in 2002 and 10 in 2001). As for the reasons, please see above.

The companies judging their Canadian labour productivity as being higher than in Germany (26%) noted that the main reasons for their opinion are as follows:

- The working climate is more result driven
- Lower labour costs in Canada
- Fewer vacation days, more working hours (3x)
- General legal situation in Canada, especially labour laws
- Work force more flexible and more inclined to longer working hours



Profitability of Canadian Operations

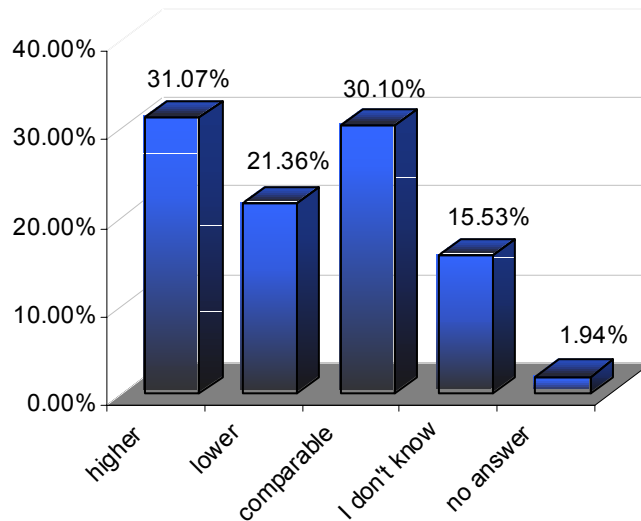


The profitability of Canadian subsidiaries returns to the high rating given two years ago: 16.5% see it as “excellent” (after 8% last year). The rating of “good” declined slightly to 40% (after 46%).

13.5% judge their profitability as “unsatisfactory”. 11% thought so in 2002.



Profitability: A Comparison Canada/Germany



Quite a change in comparison with last year: 61% of companies queried think that the profitability from their Canadian operations is on the same level or higher than in Germany. 49% thought so last year.

31% are convinced that profitability in Canada is stronger, up from 19% last year and 11% in 2001. 21% (after 18.5% in 2002), on the other hand, view the profitability in Canada as lower than in Germany.

15.5% of the respondents did not answer this question. As for the reasons, please see above.

Reasons for judging profitability in Canada as higher than in Germany were:

- Lower labour costs in Canada
- Lower non-wage labour costs
- Better cost control, lower overhead
- Higher acceptance of foreign products
- Smaller, more efficient work units
- Fewer environmental requirements

One company head, who wishes to remain anonymous, put it this way: "My German mother company is just not profitable enough".

Main reasons for estimating profitability in Canada as lower than in Germany were:

- Canadian equipment not as modern or automated (2x)
- Better work ethic in Germany
- Exchange rate problems (3x)
- Union demands and protection of labour
- Sept 11 related problems with sales in US (3x)

NOTES FOR COMPLETION OF THE QUESTIONNAIRE

Your response will be strictly confidential and no establishments will be named in any publication report which follows the analysis of the data which we collect.

All the questions relate to the establishment at the site to which the questionnaire has been sent.

Some of the questions refer to five years ago. If the establishment was not in operation or not in German ownership five years ago please give details as to the commencement of German ownership.

Some questions ask for your view of events in three years time. We appreciate that it is often difficult to predict over such a time-scale but would ask that you provide your best estimate of what is likely to happen.

1 General Facts About Your Company

1.1 Since when do you operate in Canada?

1.2 Which of the following categories best describes the sector that your Establishment works in? Please tick one:

- Mechanical and Electrical Engineering
- Automotive
- Chemicals and Chemical Engineering
- Pharmaceuticals
- Information Technology and
- Telecommunication Equipment
- Retailing
- Wholesaling/logistics Operations
- Business Services
- Financial Services
- Energy and Utilities
- Others. Please indicate _____

1.3 What is the main nature of the business at this Establishment? Please tick one:

- Manufacturing Services
- Sales/Distribution R&D

1.4 Are you one of a number of different establishments of a German organization in Canada?

YES NO

1.5 Is the controlling Head Office in Canada?

YES NO

1.6 Are you the controlling Head Office?

YES NO

1.7 How long has your establishment been partly or wholly German-owned?

- Up to 1 year 11 - 20 years
- 1 - 4 years more than 20 years
- 5 - 10 years

1.8 How was the German investment in your establishment accomplished?

- Newly built / green field investment
- Merger / acquisition

1.9 Which of the following statements describes best the ownership of your establishment?

- Predominantly German owned (> 50%)
- Predominantly Canadian owned (> 50%)
- Predominantly third country owned (> 50%)

2 Employment Related Questions

2.1 Would you tell us about the number of employees at this site 5 years ago, currently and what the number is likely to be in three years time?

	Full time	Part time	Total
5 years ago*			
Currently			
3 years time			

* or since the commencement of German ownership

2.2 Do you have any German employees in your establishment?

YES NO

2.3 Do you expect this number to increase stay the same decrease

2.4 Do you experience problems finding skilled labour?

YES NO

If >YES= in which areas? _____

2.5 What is the approximate percentage of your employees in the following skill groups, five years ago and currently?

Employment categories	5 years ago* (%)	Currently (%)
Category 1: Managerial and professional (e.g. sales manager, accountant)		
Category 2: Technicians, skilled craftsmen, personal assistant		
Category 3: Clerical and secretarial, plant and machine operators		

* or since commencement of German ownership

3. Investment Related Questions

3.1 Which of the following factors have influenced your parent company=s decision to invest in Canada? Please, tick all important items. Please ignore any items not relevant and feel free to add some. Please rank from your chosen items the three most important ones. Please put A1", A2", A3" in the empty column (where A1" is the most important factor).

	Factor	
<input type="checkbox"/>	Labour cost	
<input type="checkbox"/>	Labour skill	

(if yes, how many? _____)

<input type="checkbox"/>	Regulatory environment	
<input type="checkbox"/>	Labour market laws	
<input type="checkbox"/>	Tax system/tax incentives	
<input type="checkbox"/>	Federal/provincial/local government assistance	
<input type="checkbox"/>	Export potential with Canada as export base	
<input type="checkbox"/>	Expansion of business into other market segments	
<input type="checkbox"/>	Overall importance of Canada as a market	
<input type="checkbox"/>	NAFTA related potential	
<input type="checkbox"/>	Other, please specify:	

3.2 What are your investment plans for 2003?

Strong investment
 moderate investment
 no investment

3.3 Overall, would you describe your company=s Canadian investment as

very successful
 successful
 average
 not successful

3.4 How do you judge the general economic outlook in Canada over the next few years?

excellent
 good
 satisfactory
 unsatisfactory

3.5 What do you think about the outlook for your particular sector over the next few years?

excellent
 good
 satisfactory

unsatisfactory

3.6 How do you judge the corporate tax system in Canada in comparison to Germany?

more business friendly

less business friendly

3.7 How do you judge the overall regulatory environment in Canada in comparison to Germany?

More business friendly

less business friendly

don=t know

If you marked >don=t know=, please explain:

don=t know

If you marked >don=t know=, please explain:

Please state the major reasons for your opinion.

If you marked >don=t know=, please explain.

4 Productivity and Profitability

4.1 How do you describe labour productivity in your Canadian operation?

excellent

good

satisfactory

unsatisfactory

4.2 Compared to similar operations in Germany is labour productivity in Canada:

higher

lower

comparable

don=t know

4.3 How would you describe the profitability of your Canadian operation?

excellent

good

satisfactory

unsatisfactory

4.4 Compared to similar operations in Germany is your profitability in Canada:

higher

lower

comparable

don=t know

Please state the major reasons for your opinion.

If you marked >don=t know=, please explain.
