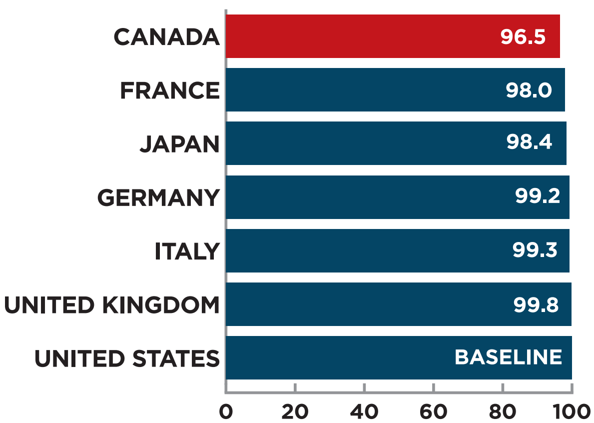
CANADA'S COST AND TAX ADVANTAGES – AEROSPACE

Canada is ranked third globally in terms of civil aircraft production, with 700 aerospace companies generating more than $25 billion in direct revenues in 2013 and employing 73,000 direct workers. One of the keys to Canada's success in the aerospace industry is a competitive environment for business costs and business taxes.

In its 2014 study of global business locations, *Competitive Alternatives*[1], KPMG found that Canada offers the lowest business cost structure, and the second lowest business tax burden among the G-7 countries for aircraft parts manufacturing. Details of these findings are presented below, reflecting business costs and taxes for a manufacturer of sub-assembly aircraft components.

AIRCRAFT PARTS MANUFACTURING COST INDEX, G-7 RESULTS (U.S. = 100.0)



CANADA'S COST HIGHLIGHTS

- Aircraft parts operations based in Canada enjoy a 12.7 percent saving on total labour costs relative to their U.S. based counterparts, with lower healthcare costs being the greatest contributor to the savings.
- Industrial facility costs in Canada are highly affordable—at 36 percent below the G-7 average for this aircraft parts manufacturer.
- Low utility costs also add to Canada's advantage. Canada ranks second among the G-7 countries for low industrial electricity costs for this aircraft parts firm, while natural gas costs in Canada are more than 50 percent lower than in five of the seven G-7 countries.
- Taxes represent the final component of Canada's cost advantage, as detailed on the next page.
- When all cost factors are considered, Canada has the lowest business cost structure among all G-7 countries, with total business costs 3.5 percent below the U.S.

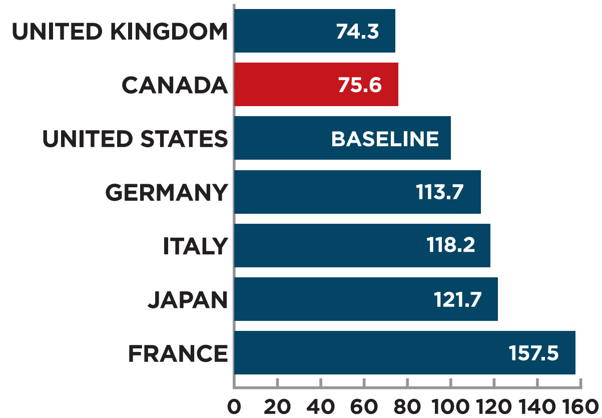
IMPACT OF EXCHANGE RATES

The 2014 edition of *Competitive Alternatives* was released in March 2014. The results from that study, including the results reported here, reflect exchange rates that were in effect in the fourth quarter of 2013. These results are sensitive to exchange rate changes.

During 2014, the U.S. dollar appreciated in value relative to most global currencies, including the Canadian dollar. For the model aerospace manufacturing firm, Canada's cost advantage relative to the United States **increases from 3.5 percent to 6.3 percent** at January 2015 exchange rates. The stronger U.S. dollar significantly increases Canada's cost advantage for international aerospace firms.

[1] *Competitive Alternatives, KPMG's Guide to International Business Location Costs* and *Competitive Alternatives, Special Report: Focus on Tax.* Available for download from CompetitiveAlternatives.com.

AIRCRAFT PARTS MANUFACTURING TOTAL TAX INDEX[3], G-7 RESULTS (U.S. = 100.)



LOW-COST HOT SPOTS

Business cost index of select Canadian cities (U.S. = 100):

A	Charlottetown	95.2
B	Moncton	95.2
C	Halifax	95.5
D	Winnipeg	96.2
E	City of Québec	96.2
F	Montréal	96.5
G	Toronto	96.5

CANADA'S TAX HIGHLIGHTS[2]

- R & D is an integral aspect of the aerospace industry. With modest investments in R & D by this production-oriented firm, Canada's generous R & D tax credits cause its effective rate of corporate income tax to come in at 19.6 percent, the second lowest rate in the G-7.
- Canada's costs for statutory labour costs and other corporate taxes are also low, ranking third among the G-7 countries in both of these tax categories.
- Overall, Canada's total tax index for the model aerospace firm is 75.6 – the second lowest among the G-7 countries and reflecting total tax costs 24.4 percent lower than in the United States.

SUMMARY OF OPERATING PARAMETERS

BUSINESS OPERATION: AIRCRAFT PARTS MANUFACTURING	
Facilities requirements	
Leased industrial site (20,234 m²)	5 acres
Size of factory (7,107 m²)	76,500 ft²
Workforce	
Management	4
Sales and administration	10
Production/non-dedicated product development	
• Professional, technical	38
• Operators	27
• Unskilled labourers	3
Other	3
Total employees	85
Other initial investment requirements	
Machinery and equipment – U.S. $'000	$7,000
Office equipment – U.S. $'000	$250
R & D equipment – U.S. $'000	$300
Inventory – U.S. $'000	$8,000
Equity financing – % of project costs	50%
Energy requirements	
Electricity: monthly consumption	177,000 kWh
Gas: monthly consumption (20,538 m³)	7,250 CCF
Other annual operating characteristics	
Sales at full production – U.S. $'000	$33,000
Materials and other direct costs – % of sales	47%
Other operating costs – % of sales	4%
Investment in tax-eligible R & D – % of sales	1.7%

[2] Calculations by MMK Consulting Inc. based on detailed data from *Competitive Alternatives, Special Report: Focus on Tax* as that report only published sector-level tax results.
[3] Calculations by MMK Consulting Inc. based on detailed data from *Competitive Alternatives, Special Report: Focus on Tax* as that report only published sector-level tax results.