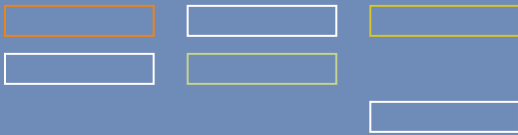


| I n v e s t i n Q u é b e c ! |



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costs location businesses  
operating Québec

| I n v e s t i n Q u é b e c ! |

Finding the ideal place to locate and operate a business takes careful consideration. This brochure provides information and comparisons to help investors who want to know more about Québec.

The document presents the results of the KPMG study<sup>1</sup> entitled "Competitive Alternatives", the standard for comparison of business location and operating costs in North America, Europe and Japan. The amount of these costs and their relative level are major factors that investors must weigh when choosing where to locate an investment.

At the Québec government's initiative and with the agreement of KPMG, the data concerning Québec have been identified and presented in this document. They can be used to assess the competitiveness of the economic environment in Québec, compared to the major industrialized countries.

1. Study released in January 2002 and available at [www.competitivealternatives.com](http://www.competitivealternatives.com).



Québec  Canada  United States  Germany  Austria  France  Italy  Japan  Netherlands  United Kingdom 



Q u é b e c





# Parameters of the study

## Sectors Analyzed

### 7 Manufacturing Sectors

Metal components | Plastic products | Food processing | Electronics assembly | Precision components | Pharmaceuticals | Specialty chemicals

### 5 Service Sectors

Biomedical R&D | Electronics systems development and testing | Advanced software | Web and multimedia content development | Shared services centres, such as call centres

## The Cities Studied

The KPMG study looked at **115 cities** located in nine countries, namely the G-7<sup>1</sup> countries, Austria and the Netherlands. The cities were ranked according to their demographic size (cities with a population greater than 1.5 million, cities between 500 000 and 1.5 million, and cities under 500 000).

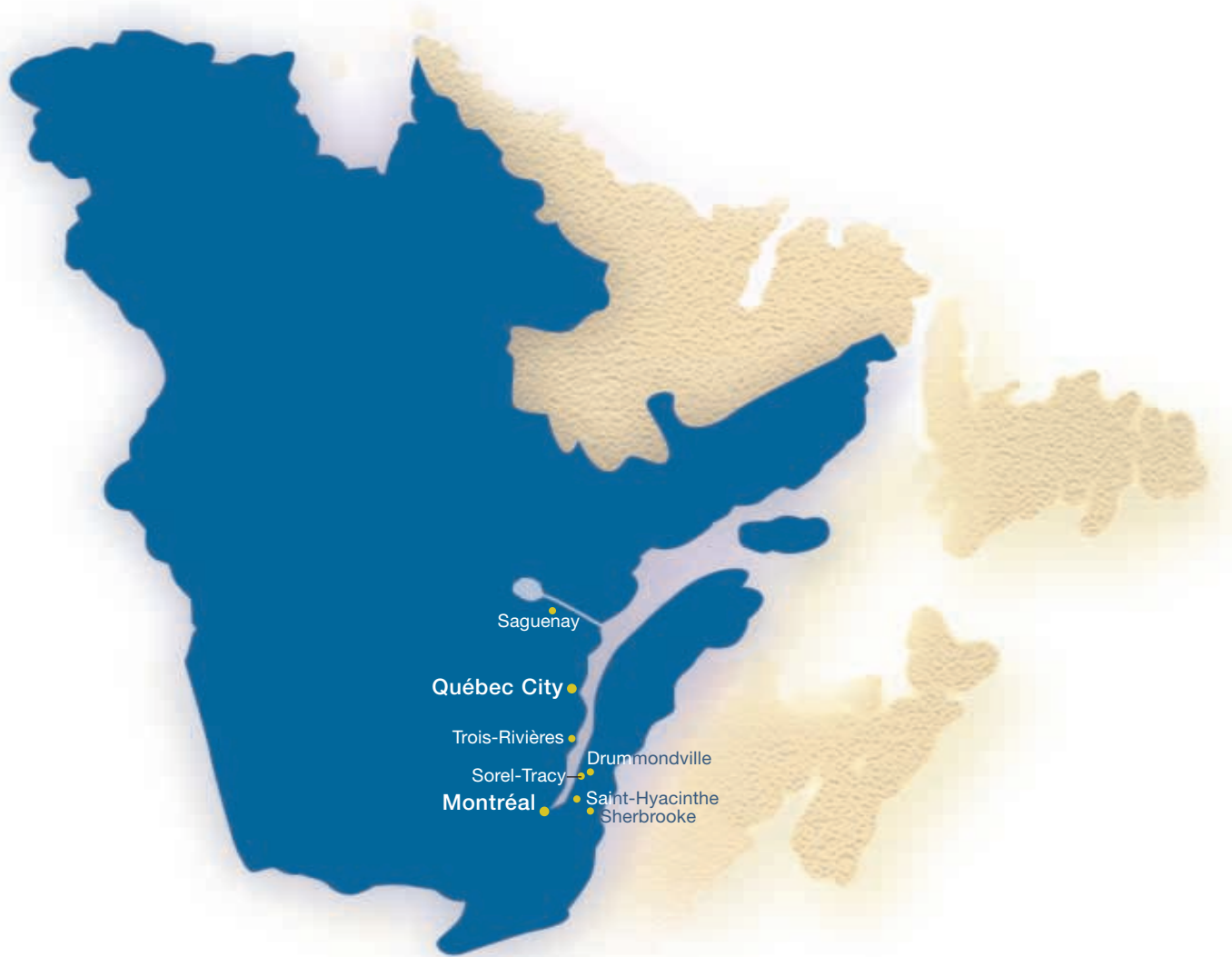
The study looks at **eight cities in Québec**, namely Montréal, Québec City, Drummondville, Saguenay, Saint-Hyacinthe, Sherbrooke, Sorel-Tracy and Trois-Rivières.

Québec's competitiveness index was calculated using business location and operating costs observed in Montréal, Québec City and Sherbrooke. The index was calculated according to KPMG's methodology, i.e. based on the business location and operating costs observed in three cities considered respectively as mature, emerging and in the process of restructuring.

## Location-Sensitive Cost Factors Analyzed

Labour (including wages and salaries, statutory benefits, and other benefits) | Industrial land | Industrial construction | Office leasing | Transportation | Electricity and natural gas | Telecommunications | Interest and depreciation | Income tax and other taxes

1. Canada, United States, Japan, Germany, France, Italy and United Kingdom.



Québec is the largest province in Canada in terms of surface area and ranks second in population with 7.4 million people.

With a gross domestic product in excess of C\$225 billion (US\$145 billion), Québec ranks among the top 20 industrialized countries in the OECD.

Under the North American Free Trade Agreement (NAFTA), Québec has preferred access to a market of over 400 million consumers, 130 million of whom live within a radius of 1 000 kilometres.

# Québec Has the Lowest Business Location and Operating Costs!

Among the major industrialized countries, Québec is the best place to start and carry on a business.



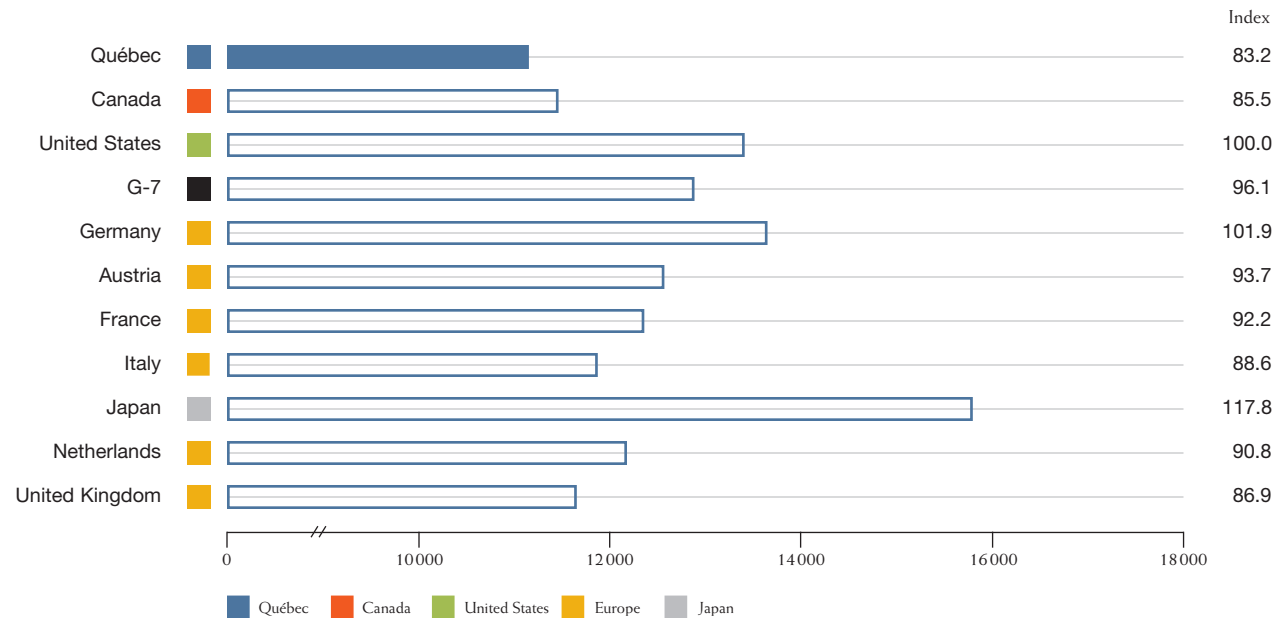
This is clearly confirmed in the KPMG study:

Business location and operating costs are lowest in Québec.

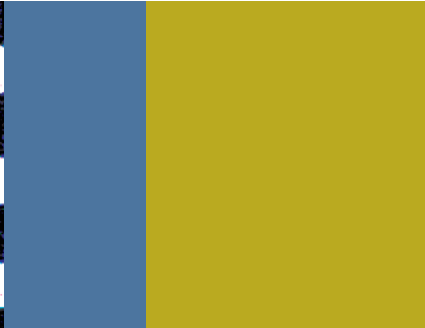
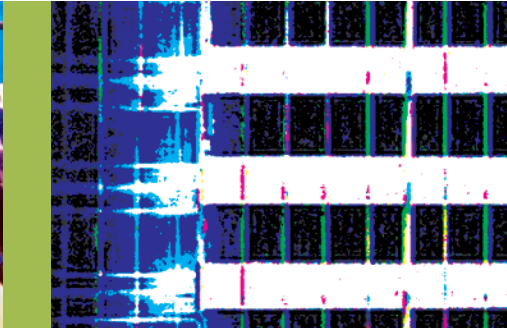
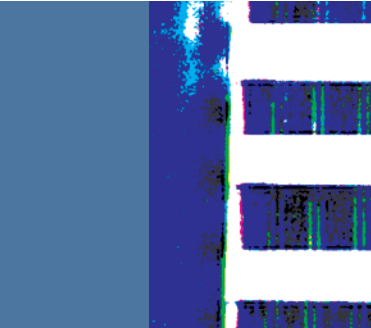
For the sectors as a whole, these costs are 2.7% lower than the Canadian average, 16.8% below the costs in the United States and 13.4% lower than the average costs in the G-7 countries.

## Business location and operating costs<sup>1</sup>

Average of twelve sectors – Québec and major industrialized countries  
(in thousands of US dollars)

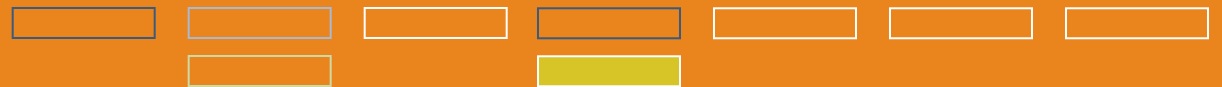


1. Business location and operating costs are compared over a ten-year period.  
Sources: KPMG, *Competitive Alternatives* (2002 edition) and ministère des Finances du Québec.



# Québec Ranks First in Eleven of the Twelve Sectors

KPMG analyzed business location and operating costs in twelve sectors in the manufacturing and service fields (R&D, software and corporate services). In eleven of these sectors, Québec ranks first.



# Manufacturing

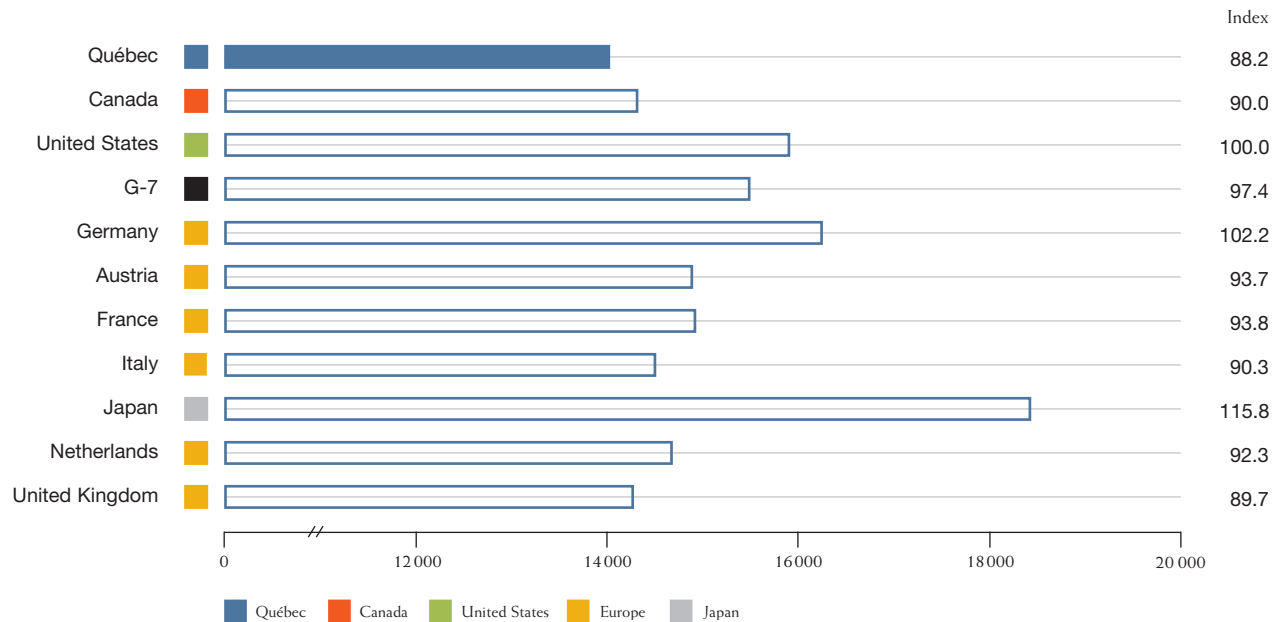
In the manufacturing field, Québec ranks first in six of the seven sectors studied.

Québec is especially competitive in the precision components, plastic products and metal components sectors.

For the manufacturing field as a whole, business location and operating costs in Québec are 9.4% lower than the average for the G-7 countries, and 11.8% below the costs observed in the United States.

## Business location and operating costs in the seven sectors of the manufacturing field

Average of seven sectors – Québec and major industrialized countries  
(in thousands of US dollars)



Sources: KPMG, *Competitive Alternatives* (2002 edition) and ministère des Finances du Québec.



## Index of business location and operating costs in the seven sectors of the manufacturing field

Average of seven sectors – Québec and major industrialized countries  
(Index: United States = 100)

	Metal components	Plastic products	Food processing	Electronics assembly	Precision components	Pharmaceuticals	Specialty chemicals	Average of manufacturing fields
Québec	85.8 (1 <sup>st</sup> )	85.4 (1 <sup>st</sup> )	91.4 (3 <sup>rd</sup> )	87.8 (1 <sup>st</sup> )	82.5 (1 <sup>st</sup> )	89.4 (1 <sup>st</sup> )	88.7 (1 <sup>st</sup> )	88.2 (1 <sup>st</sup> )
Canada	88.9	89.0	92.5	89.4	86.0	90.9	89.6	90.0
United States	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
G-7	96.8	96.6	96.9	99.2	94.8	98.1	97.8	97.4
Germany	101.3	100.4	99.5	105.9	102.7	103.2	103.2	102.2
Austria	91.1	90.9	93.4	95.7	91.2	95.4	95.2	93.7
France	91.3	91.1	94.4	95.5	89.8	95.3	95.5	93.8
Italy	87.4	87.9	91.3	91.1	83.9	91.9	92.6	90.3
Japan	122.0	121.7	109.6	121.6	117.5	115.0	111.4	115.8
Netherlands	89.0	87.9	92.1	95.0	87.5	94.4	95.3	92.3
United Kingdom	86.6	86.4	90.9	91.1	83.9	90.7	92.4	89.7
<b>Québec's % advantage compared with:</b>								
Canada	3.5	4.0	1.2	1.8	4.1	1.7	1.0	2.0
United States	14.2	14.6	8.6	12.2	17.5	10.6	11.3	11.8
G-7	11.4	11.6	5.7	11.5	13.0	8.9	9.3	9.4

Sources: KPMG, *Competitive Alternatives* (2002 edition) and ministère des Finances du Québec.

## Services: R&D, software and corporate services

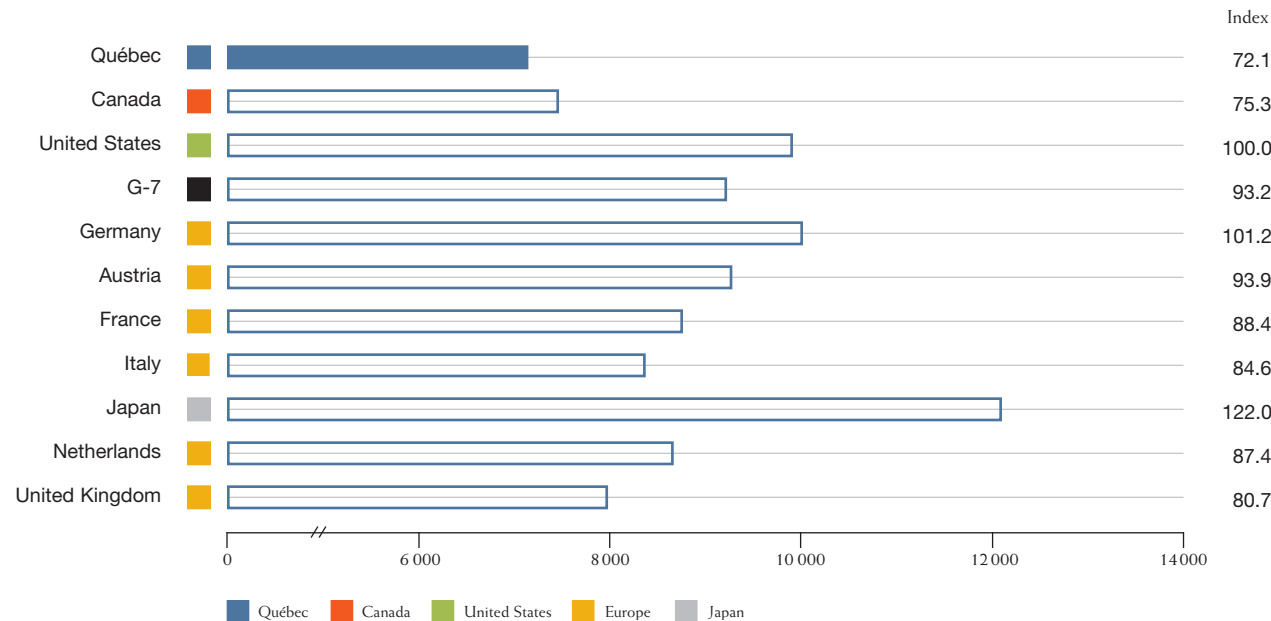
In services such as R&D, software and corporate services, business location and operating costs are particularly advantageous: overall, costs in Québec are 22.6% lower than average costs in the G-7 countries and 27.9% below those in the United States.

For electronic systems development and testing, for instance, costs in Québec are 37.6% lower than in the United States and 26.1% below the average for the G-7 countries.

In the advanced software and biomedical R&D sectors, the advantage enjoyed by companies in Québec is 18.9% and 25.8%, respectively, compared to the average for G-7 countries, and 24.8% and 32.6%, respectively, compared to the United States.

### Business location and operating costs in the five sectors of the services field

Average of five sectors – Québec and major industrialized countries  
(in thousands of US dollars)



Sources: KPMG, *Competitive Alternatives* (2002 edition) and ministère des Finances du Québec.

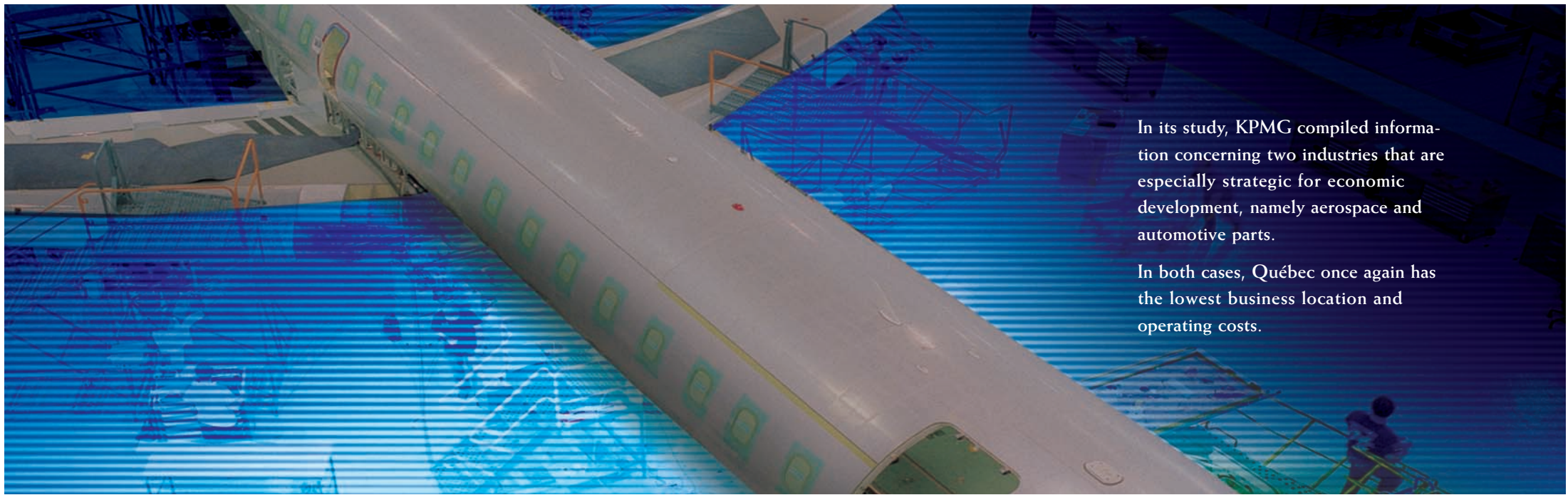
## Index of business location and operating costs in the five sectors of the service field

Average of five sectors – Québec and major industrialized countries  
(Index: United States = 100)

	Biomedical R&D	Electronic systems development and testing	Advanced software	Content development (Web, multimedia)	Shared services centres	Average of service sectors
Québec	67.4 (1 <sup>st</sup> )	62.4 (1 <sup>st</sup> )	75.2 (1 <sup>st</sup> )	75.4 (1 <sup>st</sup> )	78.1 (1 <sup>st</sup> )	72.1 (1 <sup>st</sup> )
Canada	72.2	66.9	77.8	77.6	80.3	75.3
United States	100.0	100.0	100.0	100.0	100.0	100.0
G-7	90.8	84.4	92.7	91.9	106.2	93.2
Germany	97.8	88.8	99.6	97.1	123.4	101.2
Austria	84.1	81.4	93.9	96.6	118.7	93.9
France	82.0	75.2	91.5	87.1	104.2	88.4
Italy	80.4	74.3	89.1	85.4	91.6	84.6
Japan	124.5	114.3	108.8	115.6	154.2	122.4
Netherlands	82.0	74.8	90.1	87.6	100.9	87.4
United Kingdom	78.7	71.0	82.0	80.7	90.0	80.7
<b>Québec's % advantage compared with :</b>						
Canada	6.6	6.7	3.3	2.8	2.7	4.2
United States	32.6	37.6	24.8	24.6	21.9	27.9
G-7	25.8	26.1	18.9	18.0	26.5	22.6

Sources: KPMG, *Competitive Alternatives* (2002 edition) and ministère des Finances du Québec.

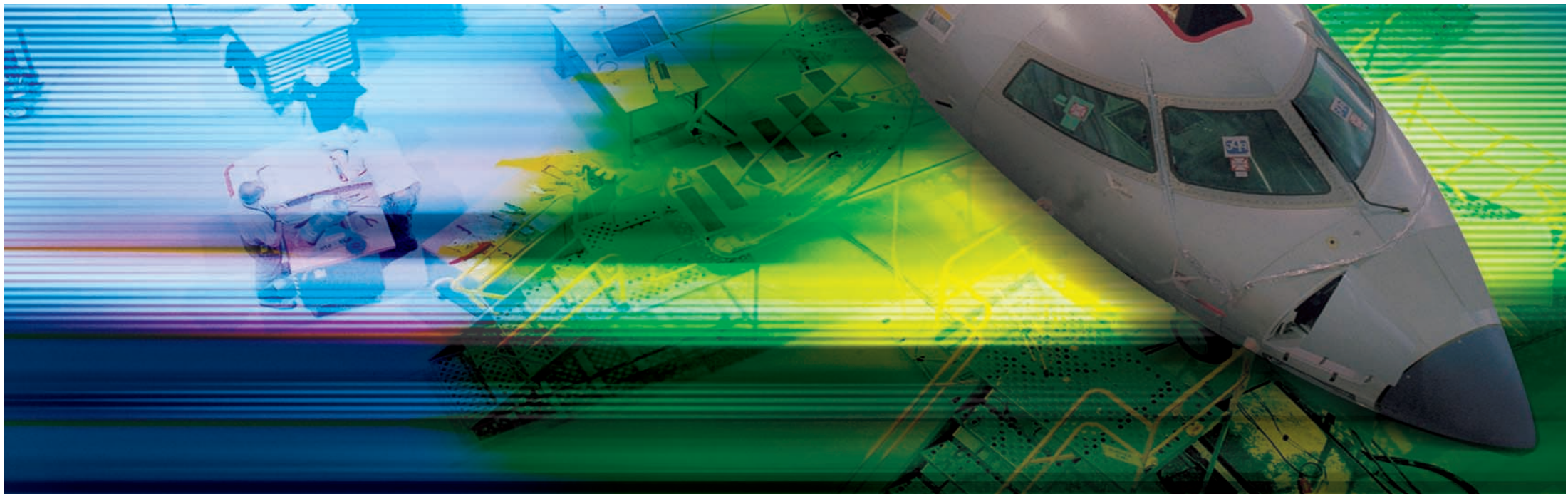




In its study, KPMG compiled information concerning two industries that are especially strategic for economic development, namely aerospace and automotive parts.

In both cases, Québec once again has the lowest business location and operating costs.

## Aerospace: Québec Is the Most Competitive Once Again

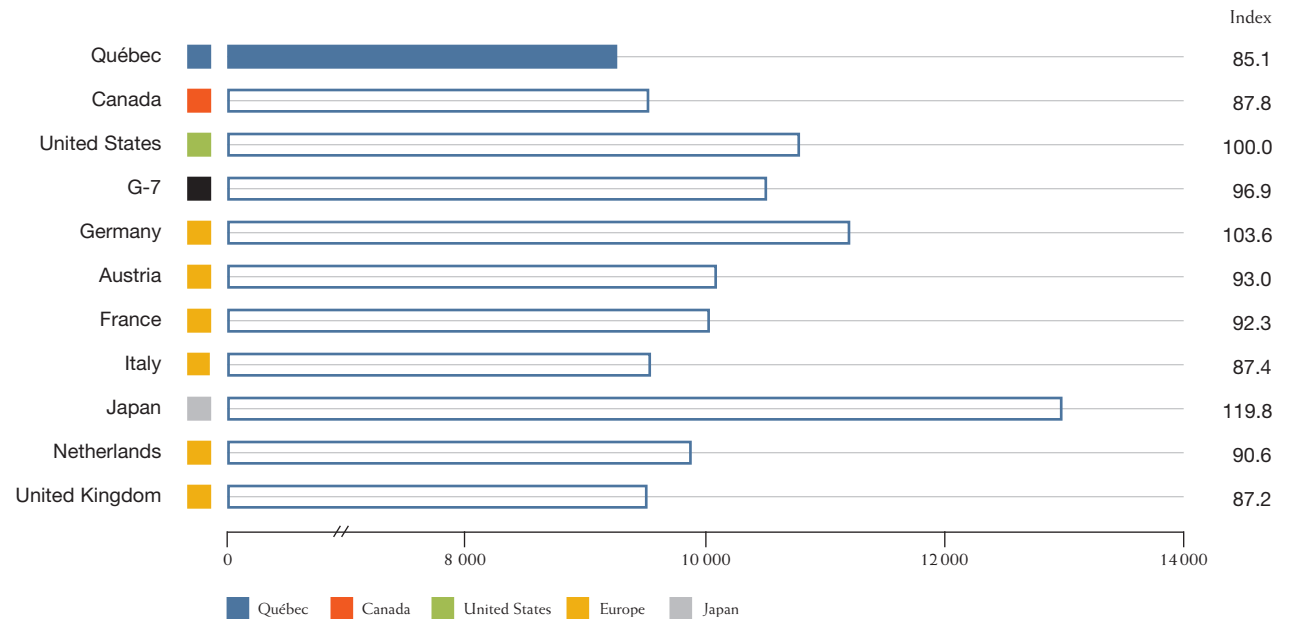


# Aerospace

In the aerospace industry, business location and operating costs in Québec are 14.9% lower than in the United States and 12.2% below the average costs in the G-7 countries.

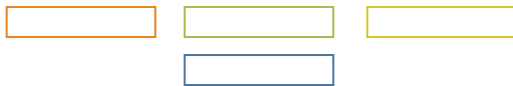
## Business location and operating costs in the aerospace industry<sup>1</sup>

Comparison of costs by country – Québec and major industrialized countries (in thousands of US dollars)



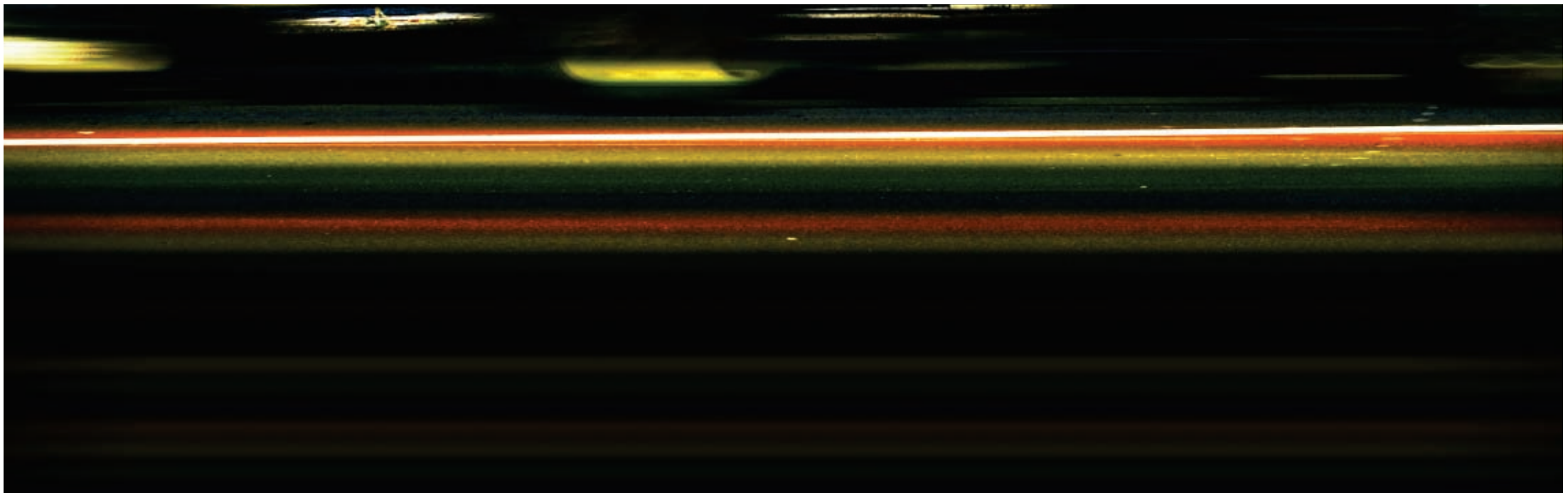
1. The aerospace industry is not an integral part of the KPMG study but is shown for information purposes. KPMG calculated the results for this industry from a combination of costs in three sectors, namely precision components (45%), electronic components (40%) and plastic products (15%).

Sources: KPMG, *Competitive Alternatives* (2002 edition) and ministère des Finances du Québec.





Automotive parts: Québec Is the Most Competitive Once Again

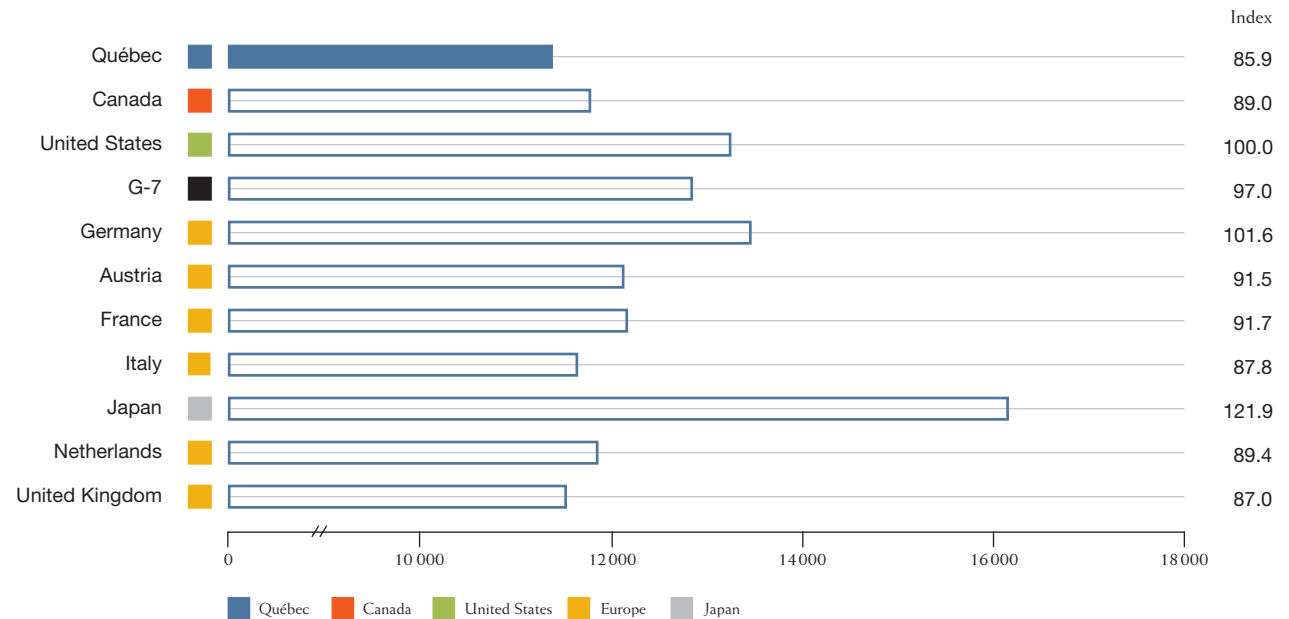


# Automotive Parts

The story is the same in the automotive parts sector, where companies in Québec enjoy an advantage of 14.1% compared to the United States and 11.4% compared to the average of the G-7 countries.

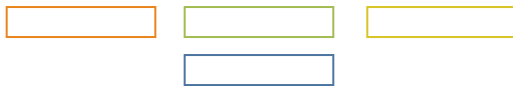
## Business location and operating costs in the automotive parts industry<sup>1</sup>

Comparison of costs by country – Québec and major industrialized countries (in thousands of US dollars)



1. The auto parts industry is not an integral part of the KPMG study but is shown for information purposes. KPMG calculated the results for this industry from a combination of costs in three sectors, namely metal components (75%), plastic products (15%) and electronic components (10%).

Sources: KPMG, *Competitive Alternatives* (2002 edition) and ministère des Finances du Québec.



# Québec Cities Very Well Positioned



Montréal



Québec



Cities with Population  
under 500 000

The KPMG study is based on an analysis of business location and operating costs in 115 cities located in the G-7 countries, Austria and the Netherlands. In every size category, Québec cities are among the top performers.

Montréal **ranks first**

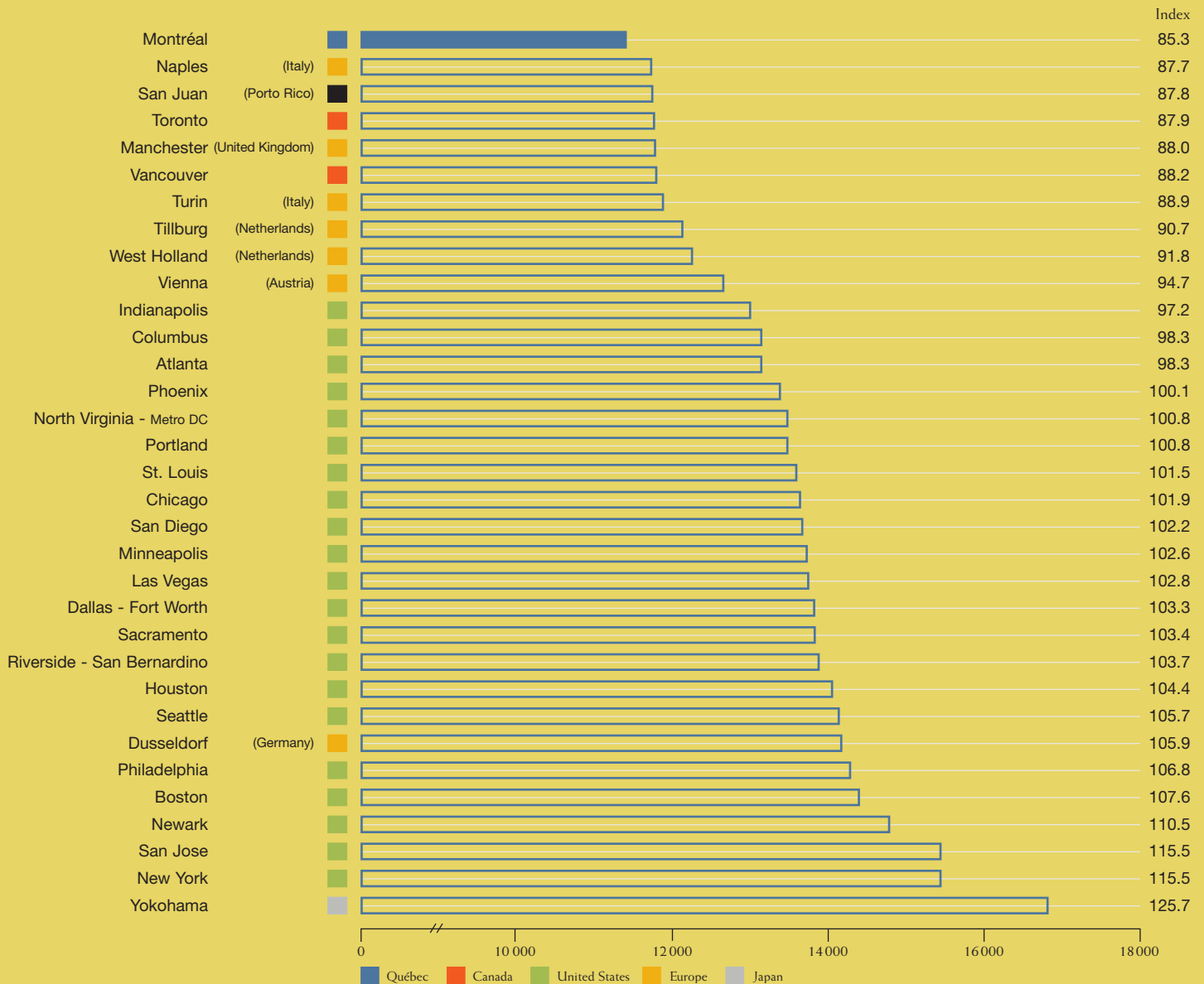
among the 33 cities with over 1.5 million people. Business location and operating costs are lower in Montréal than in Toronto, Vancouver, Chicago, New York, Manchester, Turin and Vienna.



MONTRÉAL

# Business location and operating costs

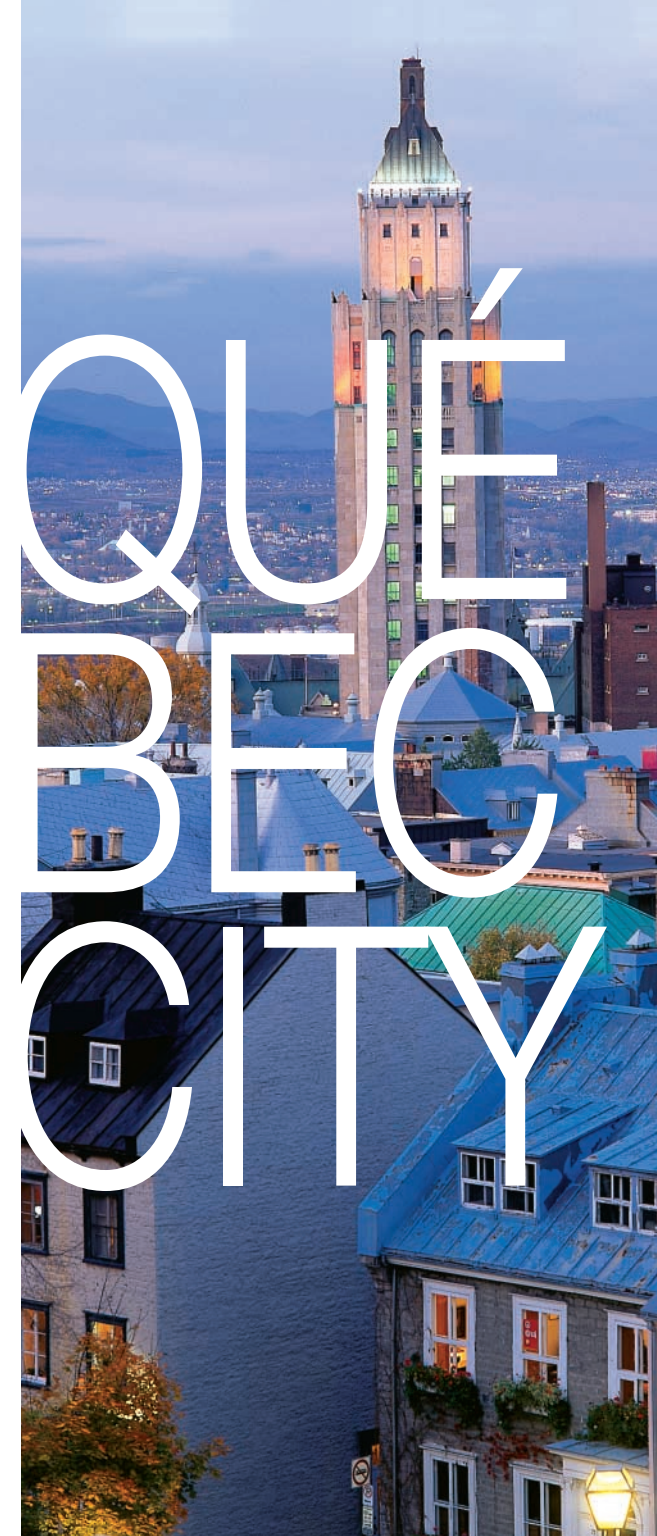
Average of twelve sectors – Cities with population over 1.5 million  
(in thousands of US dollars)



Sources: KPMG, *Competitive Alternatives* (2002 edition) and ministère des Finances du Québec.



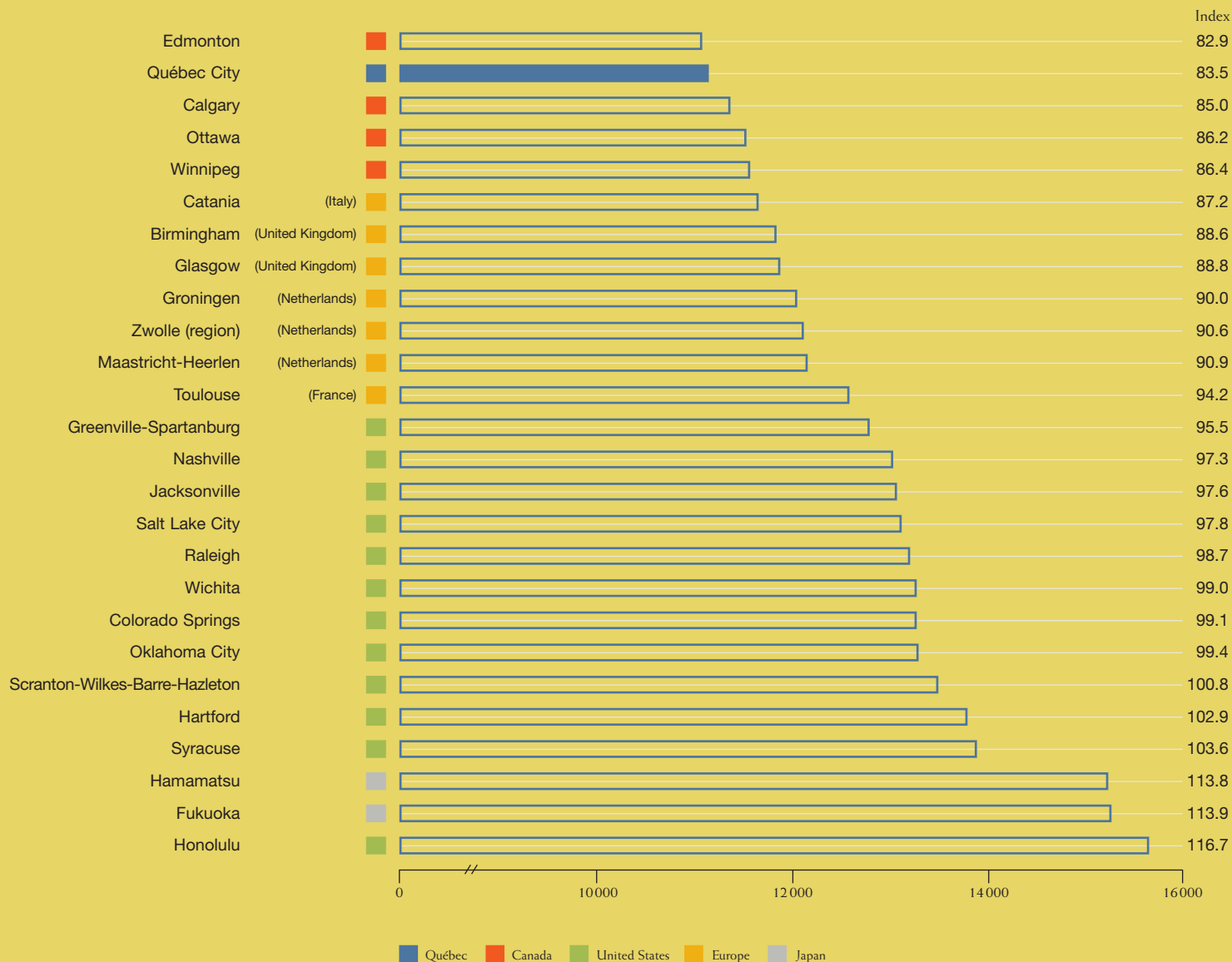
Québec City ranks  
second among the  
26 cities with between 500 000 and  
1.5 million people, just behind  
Edmonton but ahead of Calgary,  
Ottawa, Salt Lake City, Toulouse  
and Birmingham.



# QUÉBEC CITY

# Business location and operating costs

Average of twelve sectors – Cities with population between 500 000 and 1.5 million  
(in thousands of US dollars)



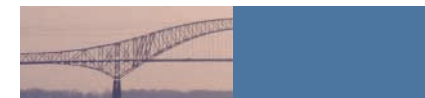
Sources: KPMG, *Competitive Alternatives* (2002 edition) and ministère des Finances du Québec.

A photograph of an industrial facility, possibly a refinery or power plant, with tall towers and cranes, silhouetted against a sunset sky. The foreground shows a body of water with ice or debris.

CITIES WITH  
POPULATION  
UNDER

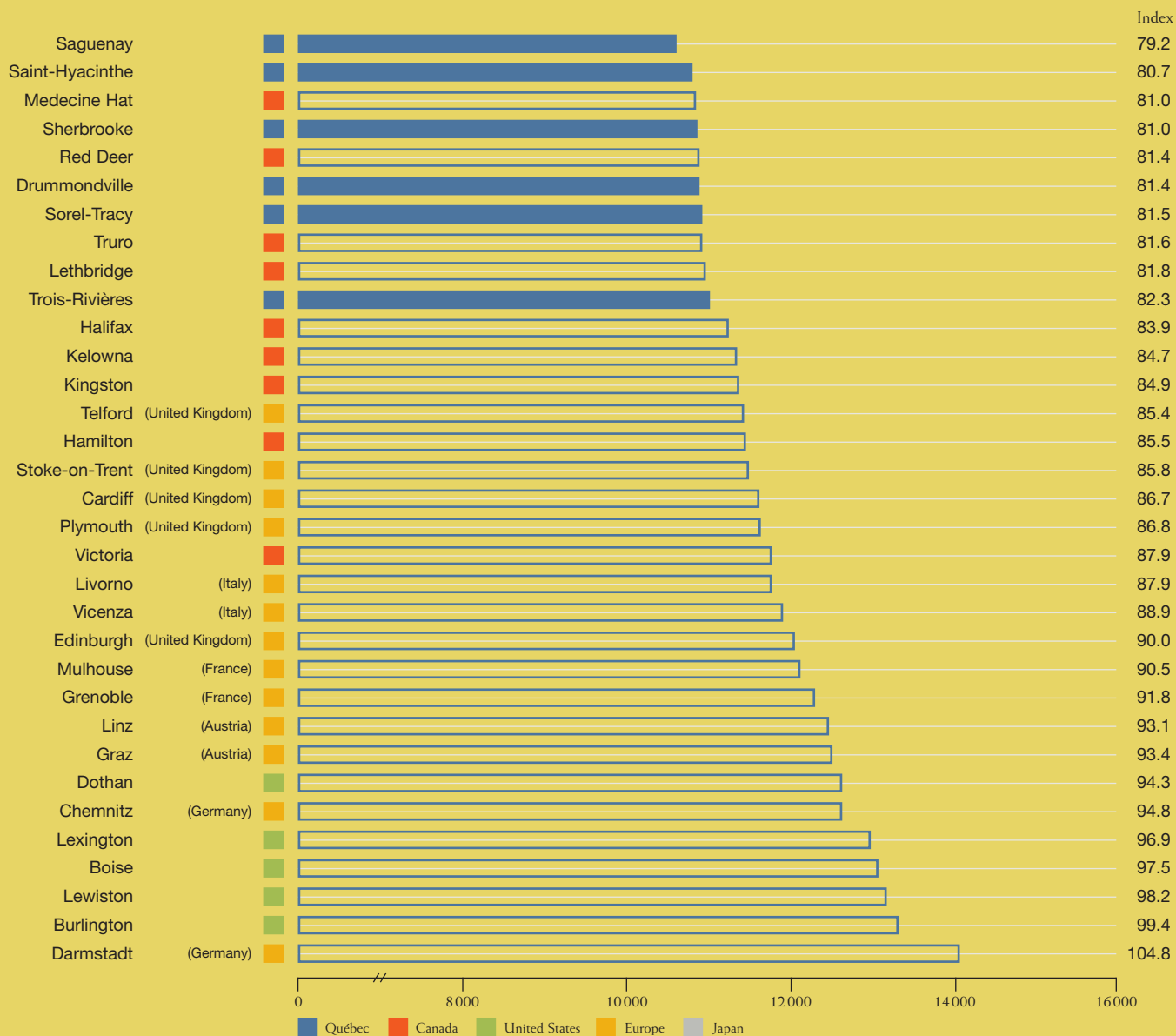
500  
000

Six Québec cities rank among the top ten in the group of 56 cities with fewer than 500 000 people studied by KPMG. They are Saguenay, Saint-Hyacinthe, Sherbrooke, Drummondville, Sorel-Tracy and Trois-Rivières.



# Business location and operating costs

Average of twelve sectors – Cities with population under 500 000<sup>1</sup>  
(in thousands of US dollars)



1. For presentation considerations, the chart shows only certain cities in this category.

Sources: KPMG, *Competitive Alternatives* (2002 edition) and ministère des Finances du Québec.



# Québec's Competitive Advantages

Québec's exceptional results are attributable to a combination of many competitive advantages that are available to investors, in particular concerning initial investment costs, labour costs and the cost of services.

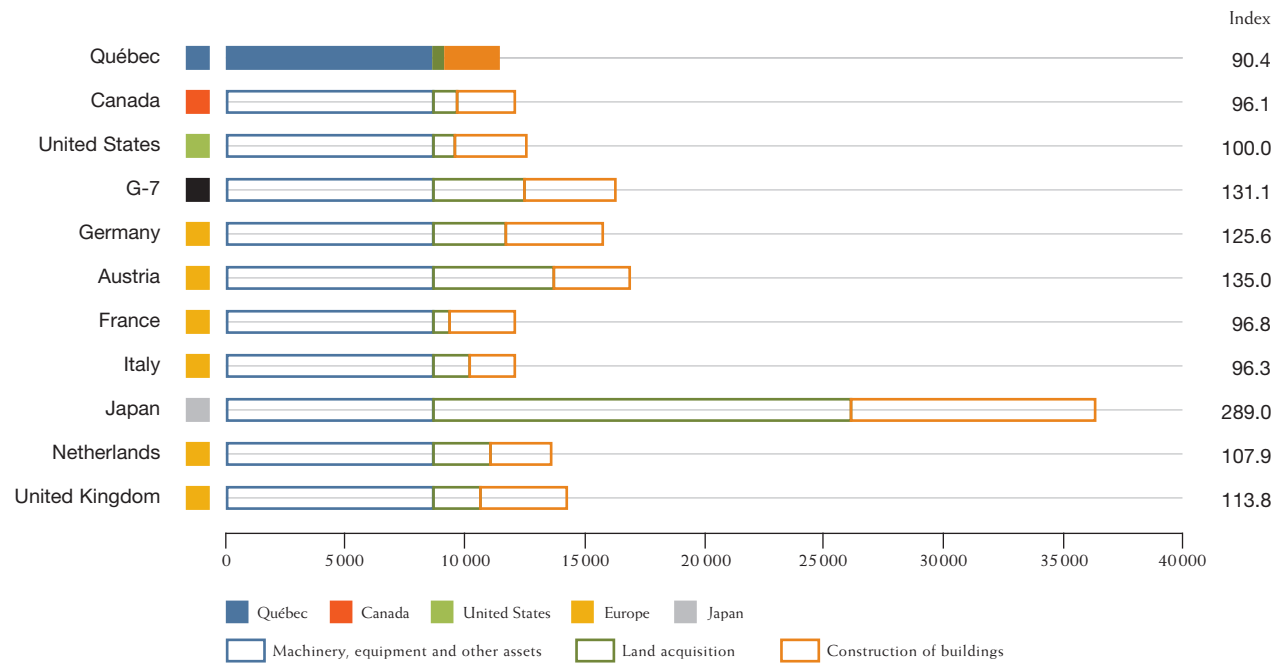


# Initial investment costs

Québec ranks first in terms of initial investment costs. In particular, the average cost of land acquisition is less than half that in Canada and the United States.

## Initial investment costs

Average of seven manufacturing industries – Québec and major industrialized countries  
(in thousands of US dollars)



Sources: KPMG, *Competitive Alternatives* (2002 edition) and ministère des Finances du Québec.



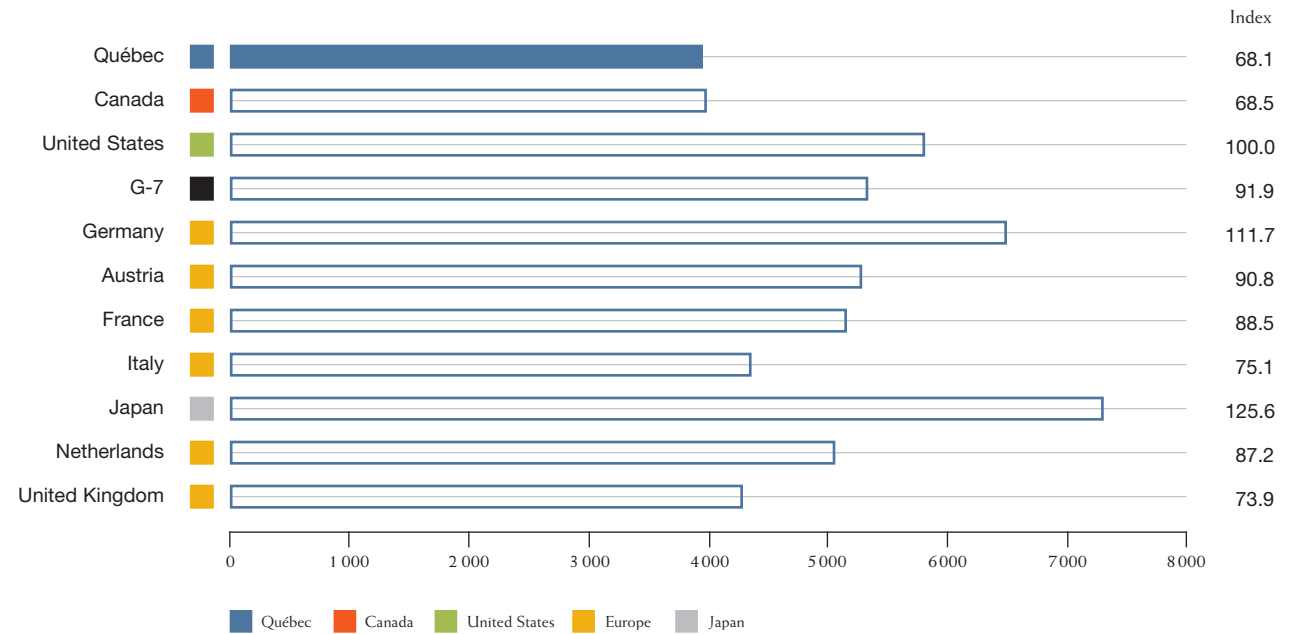
# Labour Costs

Labour costs are of strategic importance for companies. According to the KPMG study, they account for close to 60% of location-sensitive costs for companies in manufacturing, and about 80% in the service field.

Québec offers very attractive conditions in this regard. For the twelve sectors as a whole, labour costs are 25.9% lower than the average for the G-7 countries, and Québec's advantage reaches 31.9% compared to the United States.

## Total labour costs

Average of twelve sectors – Québec and major industrialized countries  
(in thousands of US dollars)



Sources: KPMG, *Competitive Alternatives* (2002 edition) and ministère des Finances du Québec.

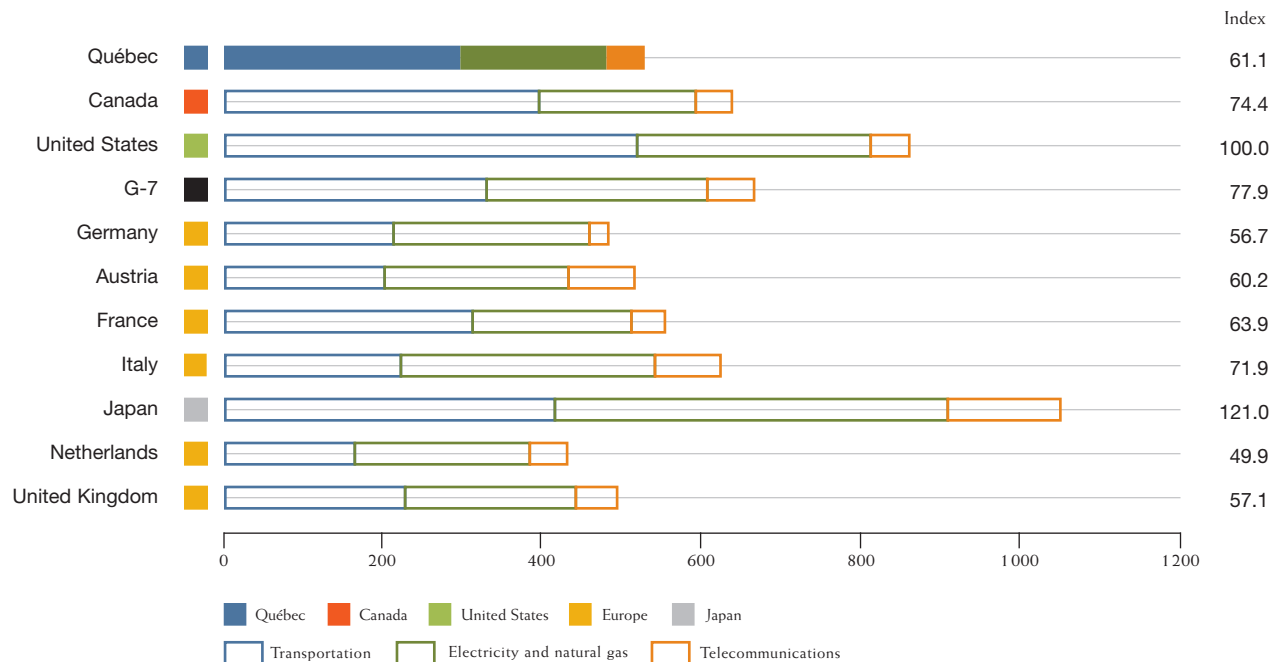
# Corporate Services Costs

Québec is well positioned regarding costs of corporate services, which include the cost of transportation, electricity, natural gas and telecommunications.

Overall, such costs in Québec are 17.9% lower than in Canada, 21.6% below the average of the G-7 countries and 38.9% lower than in the United States.

## Total cost of services

Average of twelve sectors – Québec and major industrialized countries  
(in thousands of US dollars)



Sources: KPMG, *Competitive Alternatives* (2002 edition) and ministère des Finances du Québec.

# An Advantageous Tax System

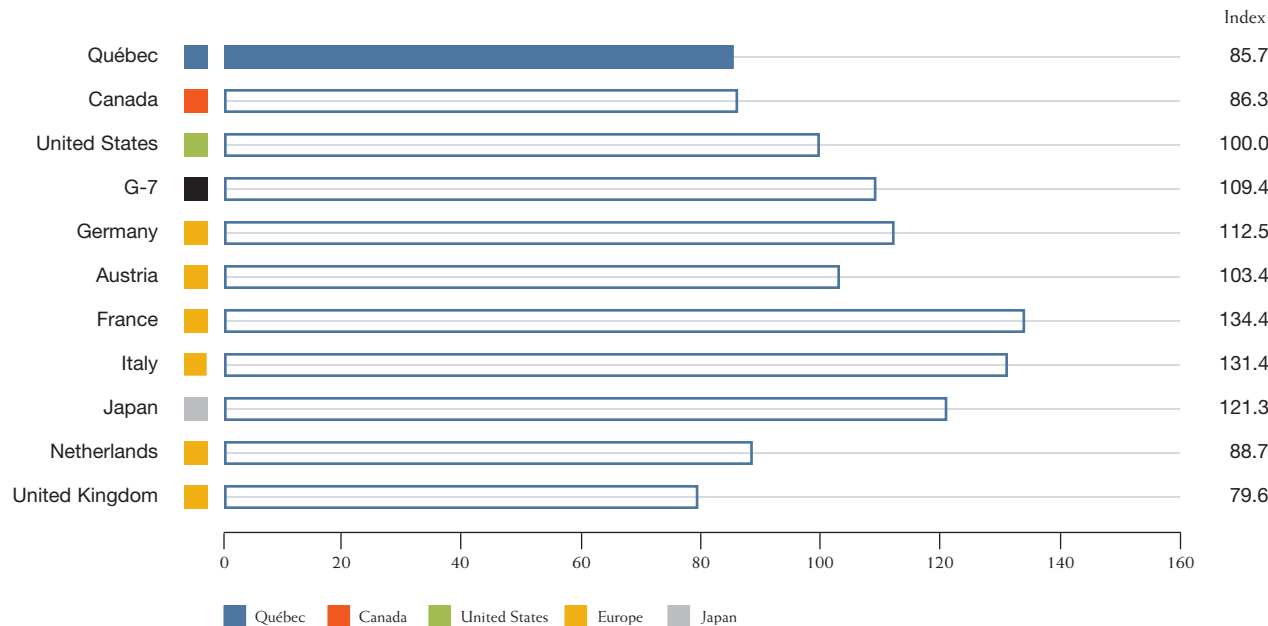
Québec's competitive advantages are bolstered by tax provisions that apply to companies that locate here. Using the data provided by KPMG, the tax system of each jurisdiction analyzed is simulated for a given business to measure the tax competitiveness index of these jurisdictions.

In this regard, Québec ranks second, behind the United Kingdom but ahead of all other jurisdictions.

In particular, companies in Québec enjoy tax costs that are 14.3% lower than in the United States and 21.7% below the average for the G-7 countries.

## Tax competitiveness index<sup>1</sup>

Average of twelve sectors – Québec and major industrialized countries  
(Index: United States = 100)



<sup>1</sup> The tax competitiveness index is established using the tax system in a given jurisdiction and applying it to business location and operating costs in Montréal. For this exercise, all tax costs, including the payroll tax, were considered over a ten-year period.

Sources: KPMG, *Competitive Alternatives* (2002 edition) and ministère des Finances du Québec.

## A Favourable Investment Environment

Québec offers a highly competitive business environment.

In addition to an advantage in terms of business operating costs, Québec enables companies to benefit from conditions that are essential to a successful investment, namely:

- highly qualified labour,
- readily available financing,
- modern transportation and telecommunications infrastructures,

- world-class research centres,
- access to the huge North American market thanks to NAFTA,
- an advantageous exchange rate for exporting companies.

Québec offers more than the lowest business location and operating costs among the major industrialized countries. It also has a package of financial incentives and very attractive fiscal measures that the KPMG study does not include because they apply to designated sites or to specific projects.

Companies that want to invest in Québec will find useful information concerning the advantages available to them at the following addresses:

## Practical Tools to Promote Investment

Investissement Québec  
[www.investquebec.com](http://www.investquebec.com)

- Investment, job creation,  
innovation and new  
economy projects

Société générale  
de financement

[www.sgfqc.com](http://www.sgfqc.com)

- Major investment projects

Centre financier  
international Montréal

[www.cfimontreal.com](http://www.cfimontreal.com)

- International financial centres

Montréal Foreign Trade Zone  
at Mirabel

[www.zonemirabel.com](http://www.zonemirabel.com)

- Aerospace  
- International logistics  
- Light manufacturing



Ministère des Finances  
[www.finances.gouv.qc.ca](http://www.finances.gouv.qc.ca)

## Methodology

KPMG has developed a **method** for comparing business location and operating costs among many possible locations. The **results** of this comparison are periodically updated.

KPMG's methodology consists in constructing **financial statements** of companies established in a given location, for each sector and for each site analyzed.

This study reflects the prevailing costs of companies between June and November 2001. The **financial statements** were calculated over a ten-year period, using cost levels actually observed, except in the case of taxation where KPMG incorporated tax changes announced as at January 1, 2002.

In general, the companies concerned are of medium size. They employ from **66 to 145 people** and generate sales of between **\$7.5 and \$26 million**.

The study is carried out for each location selected. KPMG then establishes a competitiveness index for the various jurisdictions by selecting at least three cities per jurisdiction that respectively satisfy the characteristics of an emerging city, a city in the process of restructuring and a mature city.

In establishing the financial statements of companies, KPMG does not include special incentive measures defined by jurisdictions to attract investment projects. However, KPMG does take into account incentives of a general nature, in particular tax credits for investment and job creation and fiscal and budgetary measures that favour research and development.



Photography:

Bombardier Aéronautique: page 14

Claudiel Huot: page 18 et 20

Gilles Lavoie/alt-6: page 21

Karl-Emmanuel Hamelin/alt-6: page 18 et 19

PhotoAlto: page 16

Photodisc: page 8,11 et 24

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