

Canada steps from shadows to proclaim advantages

By Philip S. Moore, Inside Tucson Business

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A well-managed Tucson company should do its research and development somewhere in Canada, its distribution locally and, maybe, its assembly in Mexico.

That was the option presented to about three dozen local business leaders at a special breakfast meeting, sponsored by the Aerospace, Manufacturing and Information Technology Cluster of Southern Arizona and the Consulate of Canada.

Offering a look at the competitive alternatives between major U.S. and Canadian cities, as well as other cities around the world, prepared by MMK Consulting, an affiliate of KPMG International, the presentation offered insights into the opportunities for expansion north of the border. Speaking at the breakfast, MMK President Stuart MacKay said, "There are benefits to be had by business on both sides of the border." For the many companies that have operations in the U.S. and Canada, the key is to know what they are, "to be able to get the most out of them."

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With the list of competitive alternatives available, he said it becomes obvious the benefits to be had from establishing research and development operations in Canada. It also becomes easier to see the costs and benefits of locating software development and even call centers there.

This is a message the Canadian Trade Commission has been trying to make in Europe and the U.S. Preparing a series of marketing appeals based on the KPMG-MMK Consulting report, Canada has described the cost and tax advantages and even immigration advantages, which make it easier to import foreign technical workers than would be possible in the U.S.

Among developed nations, only Singapore is consistently less expensive, while in comparisons of worker skill and productivity, as well as overall cost of doing business and labor environment, Montreal, Toronto and Vancouver, B.C. account for three of the top five cities.

In aerospace, agribusiness, automotive, chemicals, electronics, medical devices, metal compounds, pharmaceuticals, precision manufacturing, telecommunications, biotechnology and clinical development, as well as software, World Wide Web and multimedia design, Canada is ranked either first or second for the developed world.

MacKay said a major part of that advantage is in labor rates, which continue to be better than in the U.S., largely because of the smaller cost of employee benefits, thanks to the Canadian national healthcare plan. "Healthcare benefits, north of the border, are only about 1 percent of compensation. They can be 7 percent or higher in the U.S.," MacKay said. "Personal income tax is higher because of it, but when it comes to doing business, this is a benefit because the public is paying the cost of medical care, not the company."

Because of higher guaranteed wages, McKay said low-skilled workers can be more expensive than the U.S., "but high-skilled workers and managers are less expensive."

Facilities in Canada are more expensive to purchase, but comparable lease and electricity costs are another Canadian advantage, due to hydroelectric and natural gas production.

For Canadian domestic and foreign companies, the biggest advantage for research and development companies comes from tax incentives. "In this kind of business, there are significant advantages. Tax credits are generous, and they can mean much lower business income tax, if any."

In making the comparisons, MacKay said he wasn't able to do direct cost and opportunity comparisons, because Tucson wasn't included in the KPMG-MMK Consulting study, "but we expect to be looking at that in the future." He said growing Canadian building product exports to the Tucson area, as well as expanded ties between Canadian and Tucson optics firms and environmental research groups "are making Tucson a lot more important to study."

Even without Tucson in the comparison, Tucson-based Consul and Trade Commissioner for Canada, Rick Stephenson, said, "It has obvious implications for Southern Arizona. The original study was completed in 1994, and since then, these numbers have served as a valuable way to see where each area ranks and what's important to consider when you're looking for some place to expand."

He said, "Tucson companies, like others, are always looking to expand and they're keenly interested in cost advantages. Through presentations like this, we're saying, 'Take a look at Canada.'"

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