

CANADA



INVESTMENT NEWS

APRIL 1995

The Canadian Opportunity

Welcome to the first issue of *Canada Investment News* which comes to you from the Department of Foreign Affairs and International Trade, Canada.

We will be bringing you current and useful information about investment successes, prospects and trends in Canada.

Canada offers many unique attractions for international business investors. The advantages include leading-edge technologies, a highly-developed infrastructure, a skilled and reliable work force, favourable investment policies – and, through NAFTA, location in the world's largest and richest market.

Look to this newsletter for up-to-date information about these and other aspects of the Canadian

Please see
OPPORTUNITY page 2

TOYOTA doubles its Canadian production capacity



Toyota's plant in Cambridge, Ontario

A strong track record by its Canadian plants and workers is credited for the recent decision by Toyota Motor Manufacturing Company Inc. of Canada (TMMC) to build a second \$600 million production plant in Ontario which will more than double the company's production volume.

The new plant, to be built at the company's existing 400 acre site in Cambridge, Ontario, will employ 1,200 additional workers and will produce

120,000 Corolla sedans each year — two thirds of them for the United States market. The expansion will increase TMMC's total production capacity to 200,000 vehicles annually.

According to Mr. Tatura Toyoda, President of TMMC, the company's decision to locate this new production capacity in Canada is based on the quality and production performance of its existing Canadian operation.

"The company has been assembling Toyota

vehicles at Cambridge since 1988" says Mr. Toyoda. "Over that time the plant has consistently met and exceeded production and quality

Please see PRODUCTION page 2

In this issue...

Auto manufacturers in Canada	3
Ericsson chooses Montreal	4
Information Highway	5
Canadian cities in top ten	9
Moli Energy	10
Open Skies Agreement	11
Increased investment opportunities	11
Growing with Canada	12

PRODUCTION

Cont'd from page 1

goals. This expansion is a direct result of that performance. It reflects our recognition that Canadian automobile industry workers can compete with anyone in the world."

Another factor in Toyota's decision is its recognition of Canada's status, under NAFTA, as part of the wider North American market.

A base in the North American market

Commenting on this aspect, Mr. Toyoda says: "Toyota has a corporate policy of investing in the markets in which our vehicles are sold. North America is our major overseas market."

Since Toyota opened its first Cambridge plant, production has climbed steadily from 50,000 to a 1994 total of 85,000 cars



At its new Ontario plant Toyota will produce 120,000 Corolla Sedans per year for the Canadian and U.S. Markets.

— 80 per cent of which are sold in the United States.

By the time the new plant opens, Toyota will

have invested \$1.2 billion in its Cambridge facilities. The total includes a \$30 million expansion of the existing plant, now nearing completion, for the assembly of Corolla engines. That facility is expected to produce 89,000 engines a year.

Toyota, which also operates plants in Kentucky and California, has announced that when the new Cambridge plant comes on line, it will no longer export Corolla sedans from Japan to the United States and Canada. Construction of the new plant will begin in June 1995 and will be

completed in 1997.

The company's announcement follows news of additional automobile industry expansion in Ontario. In 1994, Honda Motor Company expanded production with a \$20 million expansion of its plant at Alliston, Ontario. Ford of Canada recently announced a \$400 million expansion program, including a 900,000 square-foot addition to its pickup-truck manufacturing plant. The expansion program is scheduled for completion in mid-1995 and will raise Ford's total investment in Canada to \$3 billion. ♦

OPPORTUNITY

Cont'd from page 1

opportunity. We will report on new investments in Canada. We will bring you news, facts and statistics about developments in infrastructure, in public policies and other factors that help to make Canada's investment climate competitive.

And we want this to be two-way communication. Please write, phone or fax us if you need more information about any of the topics covered in the newsletter — or about any other investment-related questions you may have — at the numbers listed on the back cover. We will get back to you quickly with the answers, or put you in touch with the right sources.



Strong parts sector is an asset for auto manufacturers in Canada

To automobile manufacturers, one major benefit of a Canadian location is the presence of a well-established and robust auto parts industry.

And, as Neil De Koker, President of the Canadian Automotive Parts Manufacturers Association, sees it, Toyota's choice of Canada for expansion constitutes "a great vote of confidence in the Canadian auto parts sector" and he estimates that once production reaches 200,000 vehicles per year, the new plant should add about \$400 million in annual sales for the industry.

This will contribute to already impressive international totals. Although the bulk of the industry's production goes to Canadian and U.S. auto assembly plants, Canadian auto parts manufacturers sell about \$1 billion worth of products each year to Japanese vehicle manufacturers in North America, and about \$350 million to European-based manufacturers.

In recent years, economic recovery and favourable currency rates

Canadian auto parts

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have sparked a boom in the industry based on orders from assembly plants in both the United States and Canada. Auto parts sales in 1994 were estimated to be

\$18.1 billion, up 11.3 per cent from the previous year.

Productivity has been rising too. The industry's 1994 sales were achieved with a workforce of

81,500, compared with 90,100 in 1989 when production totalled \$15.4 billion.

Furthermore, De Koker points out, this gain in productivity was registered in a period which combined virtually no inflation with considerable price reductions to customers.

In response to the boom, Canadian parts manufacturers have been expanding and modernizing. The industry has invested an average of \$850 million a year since 1986 and the 1994 total is expected to top \$1.7 billion.

The Canadian industry competes directly with U.S. and other counterparts throughout the world. Eighty per cent of its sales are to the United States. ♦

Canadian Auto Production

Between 1992 and 1993, Canadian auto production moved from 6th to 5th in the world in terms of volume. Total

1993 production was 2,246,202 units, produced in 28 plants.



Ericsson chooses Montreal base for cellular R&D

With literally a world of possible locations to choose from, the Swedish telecommunications giant Ericsson has selected Canada as the base for its research in a critical area of cellular telephone technology.

According to Lionel Hurtubise, President of Ericsson Research Canada, the Montreal R&D unit, founded in 1986, has won two world mandates in competition with 30 Ericsson R&D establishments through-

out the world including units in the United States and Mexico.

Under the first global mandate, funded at \$178 million over five years, the Montreal centre is responsible for project management and software development to meet cellular telephone communication standards used throughout North America and in 20 other countries.

The Centre has since won a second R&D mandate valued at \$95 million over five years.

As a result, Ericsson's staff of engineers has expanded from 100 three years ago to about 600 today.

What tipped the balance in Canada's favour was human resources. "Our advantage was a plentiful supply of trained and creative people, particularly in software development" says Mr. Hurtubise, who adds that

Ericsson's newspaper ads for software positions routinely draw up to 800 responses. "Personnel from the parent company who serve here are consistently amazed at the number of very qualified people to choose from. We hire from virtually all the local institutions, including École Polytechnique, McGill University, the University of

Sherbrooke and Université Laval in Québec City — and also from universities outside Quebec."

Another Canadian asset was Canada's system of tax credits for R&D which, together with competitive labour costs, make Montreal the "third or fourth lowest cost facility in the Ericsson group."

Last but not least, says Hurtubise, Montreal's cosmopolitan atmosphere makes it easy to attract people and keep them. That is reflected, he says, in a "virtually zero" turnover rate at the company. "When you consider that it can take up to six months for an engineer to get trained in a new assignment, that's an important asset." ♦



Lionel Hurtubise,
President of Ericsson Research Canada



Ericsson headquarters in Montreal

BUILDING THE *Information Highway*

CANADA

LENGTHENS ITS

INFRASTRUCTURE

LEAD

For investors comparing the bottom-line advantages of different country locations, telecommunications infrastructure has become a critical and sometimes decisive factor.

And for good reason. The rapidly evolving technologies and services of the Information Highway provide efficient day-to-day management on a global scale, and clear the way for electronics-based strategies that impact on the bottom line — Just-in-Time inventory systems for instance, and statistical process control.

According to a study conducted by the MESA research group, Canada leads the world in these advantages.

MESA, a California-based organization, compared Canada

and six other countries: Singapore, France, the U.S., Japan, the U.K. and Germany, on ten key telecommunications factors. It placed Canada at the top of the list in telecommunications quality and service penetration and second in overall quality only to the island state of Singapore.

Although telecommunications leadership is a particularly relevant asset today, its roots in Canada go back a full century before the coining of the term "Information Highway." Faced with the challenge of knitting together a national community in an area that takes up seven per

cent of the earth's surface, Canada has used modern communications technology as an essential nation-building tool and, in the process, has registered a series of pioneering achievements going back to the 1870s

Today, Canada's fast-growing telecommunications infrastructure comprises 252 million km of public switched telephone and

Access lines per 100 population in selected countries

Canada: 60

U.S.A.: 57

Germany: 52

France: 52

Japan: 44

U.K.: 43

Italy: 41

HIGHWAY

Cont'd from page 5

data networks, interconnected with satellite, cellular telephone and mobile radio networks. Telephone service is virtually universal throughout the country, reaching 99 per cent of households.

Businesses and homes are served by three national telecommunications networks. The Stentor Alliance of nine major telephone companies and Unitel Telecommunications Inc. provide telephone services. In addition, 50 smaller companies serve other regions of the country. Teleglobe Canada provides the connections for international long-distance service and Telesat Canada operates Canada's satellite communications networks.

active two-way broad-band capability.

In undertaking Beacon, Stentor is giving special attention to meeting the needs of companies based in Canada. As Stentor's Chairman, Brian Canfield, puts it, the purpose of the program is "to give Canadian business the edge it needs to compete effectively — both at home and in the global marketplace." Specifically, says Canfield, that means "seamless end-to-end service on a global basis."

When Beacon is complete, 80 to 90 per cent of all businesses and homes in Canada will have access to the multimedia traffic lanes and technologies of the Information Highway.

Canadian telecommunications firsts

Canada has been in the forefront of telecommunications pioneering for a long time.

The milestones of leadership include:

- 1874** Invention of the telephone in Ontario.
- 1948** World's first commercial microwave relay system.
- 1971** World's first domestic digital microwave network.
- 1972** World's first national geostationary satellite-based telecommunications network.
- 1985** World's longest fibre optic communications network.
- 1990** World's longest contiguous cellular network.

**Staying in the lead**

Recent developments confirm that Canada will maintain its Information Highway lead.

Last November, the Stentor Alliance announced it will spend a total of \$8 billion over the next 10 years on its "Beacon Initiative," a program to upgrade Canada's local and long distance networks to inter-

The Beacon plan includes replacing copper wire with fibre-optic cable to bring services to neighbourhoods and coaxial cable to cover the last lap to home.

About \$500 million of the Beacon investment will be spent on installation of advanced switches and other equipment needed for delivery of broad-band audio, video and data services.

Information technologies: a solid industrial base

Canada's telecommunications and information technology is one of the fastest growing sectors in the economy.

Comprising over 13,500 firms, the sector employs an estimated 300,000 people and accounts for 35% of all industrial research and development done in Canada. It includes Canada's multinational giant, Northern Telecom, internationally prominent firms such as Newbridge Networks, Mitel and SHL Systemhouse and the subsidiaries of several foreign multinationals including IBM and Digital Equipment.

Counting telecommunications equipment and services, software and computer services and the manufacture of computers, peripherals and components, the sector produces more than \$40 billion worth of goods and services each year.

Meeting business needs

The Stentor plan also calls for developing innovative new services to meet business needs. As part of the Beacon initiative, the Alliance announced last year that it will set up a venture capital fund of up to \$50 million to help software and other companies develop multimedia applications and products for use on the Information Highway.

Stentor will also spin off a new company to act as a broker for products and applications. The company will be active in such areas as distribution of multimedia equipment and software, and third-party service support, including content storage and billing, and the development of directories and customer databases.

Building an Open Road

The Information Highway will be built for the most part with private money. However, the federal government recognizes its importance to business competitiveness and has made support for its construction a major element of Canadian economic development policy.

The building of the Highway and its services will go forward in a competitive setting. In a landmark decision last September, the Canadian Radio-Television and Telecommunications Commission (CRTC) opened up all aspects of the telephone business to competition. Only two organizations, Telesat Canada which provides domestic fixed-satellite service, and Teleglobe Inc. provider of overseas telecommunications service, retain their protective monopolies. With these changes, Canada has vaulted into the front rank of countries with open-market telecommunications regimes.

In addition, the federal government is revising policies and regulations to encourage the rapid deployment of new radio-based services such as digital broadcasting, next-generation cellular

and satellite-based mobile services.

The government also plans to invest in partnership projects to interconnect institutions such as schools, libraries and colleges, and will share with industry some of the costs of researching, developing and testing the network technologies on which the highway will be based.

CANARIE

The partnership principle is embodied in a \$1.2 billion project already well under way: the Canadian Network for Advancement of Research Industry and Education (CANARIE)

which is destined to play an important part in building the competitiveness of Canadian-based businesses.

Financed mostly by the private sector, CANARIE is a non-profit corporation made up of some 300 organizations representing industry, government and the Canadian research community. Its mission is to accelerate development of the high-speed, broadband networks that constitute the passing lanes of the Information Highway.

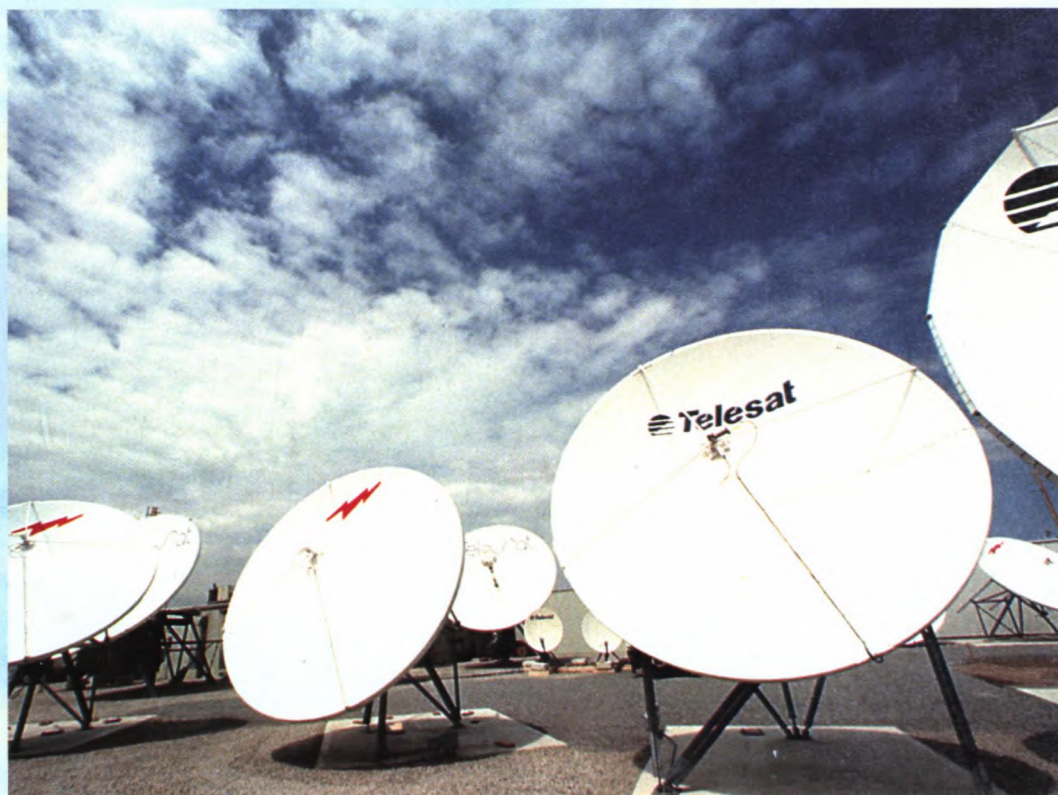
Last fall, the federal government announced it would fund the second stage of CANARIE at

\$80 million over the next four years, matched by \$396 million from the private sector.

Goals for the second phase include:

- increasing the speed of CA*Net (the Canadian part of Internet) to true multimedia capacity so that businesses and schools can exchange video, audio and high-speed data.
- extending the Information Highway into the Yukon and Northwest Territories and other parts of the Canadian North by 1995.

Please see **CANARIE** page 8



CANARIE

Cont'd from page 7

Already operational is CANARIE's very high speed experimental network which provides innovative businesses with a low-risk environment for the development and testing of new technologies and applications before bringing them to market.

This Canada-wide test-bed comprises seven regional test networks: one each in British Columbia, the prairie provinces, the Ottawa area, Quebec, Southern Ontario, Toronto and the Maritime provinces. The regional networks are collaborative projects by industry, universities, hospitals and government research institutions. They are currently being used for trials of a large number of interactive and multimedia technologies. Discussions are under way to connect the CANARIE test-bed to

counterparts in the European Community.

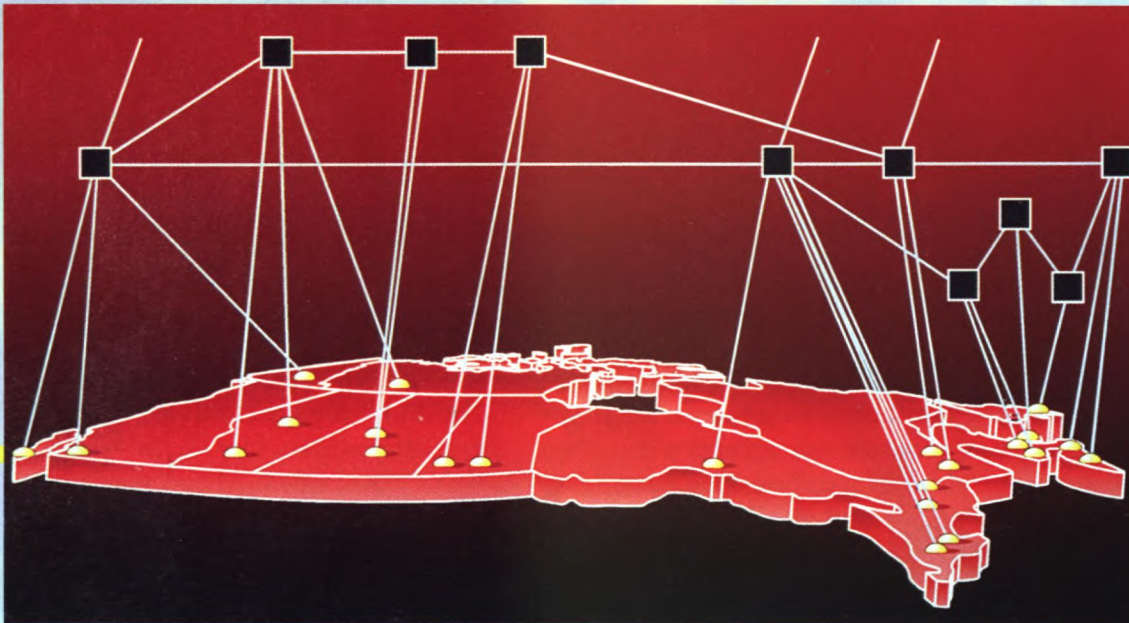
Summing up the importance of Canadian telecommunications

leadership to Canada-based businesses, Dr. Andrew Bjerring, President of CANARIE Inc., says: "The Information Superhighway

is already a cornerstone for industrial development and economic growth in Canada and the world. The projects being funded through CANARIE put Canadian companies at the cutting edge of product and technology development." ♦



In Phase Two, CANARIE will expand its test-bed network and link it to similar networks abroad. Announcing Phase Two, above, are, from left: CANARIE Chairman Peter Jollymore, Industry Minister John Manley and CANARIE President Andrew Bjerring.





Four Canadian cities rated in top ten in survey of locational advantages

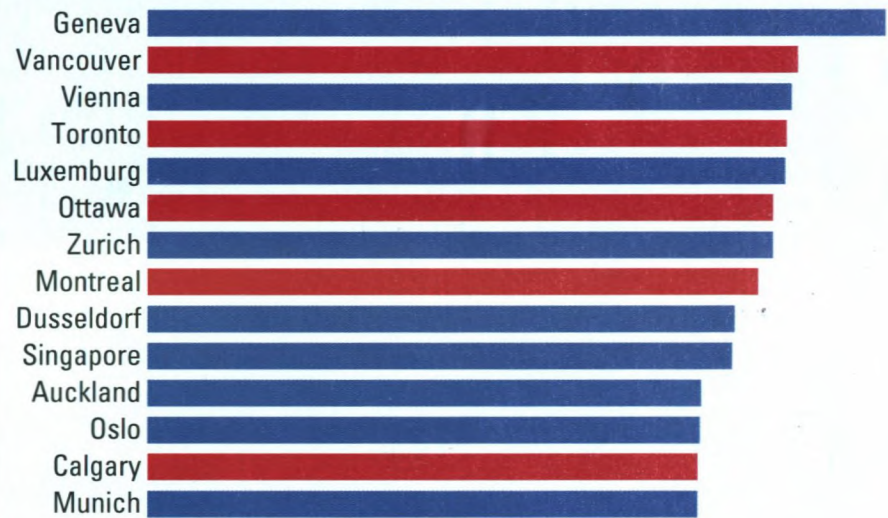
Corporate Resources Group (CRG) of Geneva regularly surveys major world cities for its multinational business and government clients to provide objective third-party comparisons of the quality-of-living benefits of different locations. The company says that its clients use this information to determine allowances paid to personnel transferred abroad.

In its latest survey of 118 cities, four Canadian cities were among the top ten and five were among the top thirteen.

Vancouver placed second immediately after Geneva itself. Toronto was fourth, Ottawa sixth, Montreal eighth and Calgary thirteenth.

CRG's rating system uses New York City as a base, with a quality index of 100. By this benchmark, Geneva scored 106, Vancouver 105.29, Toronto 105.20,

Canadian Cities Rank High in Terms of Quality of Life



Ottawa 105.09, Montreal 104.97 and Calgary 104.48. The top-rated city in the U.S. was Boston in 30th place.

The survey rated the cities on the basis of 42 factors including political and social environment,

personal safety, public infrastructure, and health and education. The criteria were selected by CRG to reflect factors that most international executives consider to be crucial. ♦



Vancouver



Toronto



Ottawa



Montreal

Japanese investment powers Canadian production of super-batteries for a huge market

MOLI ENERGY

Backed by an investment of some \$70 million in research and development, including \$13 million in plant equipment, a Japanese-owned plant in British Columbia has commenced production of a revolutionary new rechargeable battery for compact high-technology equipment.

B.C. Premier Mike Harcourt threw the switch at ceremonies marking the launch of production at the Moli Energy Plant in Maple Ridge on February 2. Also on hand were Hajime Sasaki, Executive Vice-President of NEC Corporation, and Kazuo Sato, Senior Managing Director of Mitsui and Company who made the trip from Japan to be present at the opening.

Moli Energy is a privately-owned corporation in which NEC Corporation and Mitsui are majority shareholders. At its state-of-the-art facility at Maple Ridge, the company is manufacturing MOLICELL™ rechargeable batteries, the first lithium-ion batteries to be produced in North America.

Initially the plant will serve the Japanese and North American markets — to which test shipments have already begun. Eventually it will export to the entire Asia-Pacific region including China, and also to Europe.

Speaking at the opening ceremonies, B.C. Premier Mike Harcourt said: "This production facility is a working symbol of the message I have been taking to Pacific Rim countries. British Columbia is a great place to invest, and is the gateway to the North American market."

Based on technology originally developed at the University of British Columbia, MOLICELL™ batteries are designed to power laptop, notebook and sub-notebook computers, personal digital organizers and personal data terminals. Other applications include cellular and portable telephones and mobile radios, as well as mini-compact disc players and video camcorders. Environmentally friendly, the batteries contain no cadmium, lead or

mercury and yield twice the energy by weight of nickel cadmium and nickel hydride rechargeable batteries.

include development of basic materials, optimizing of cell chemistry, and cell development and evaluation.

"This production facility is a working symbol of the message I have been taking to Pacific Rim countries.

British Columbia is a great place to invest, and is the gateway to the North American market."

B.C. Premier Mike Harcourt

Initial production at Maple Ridge will run at 30,000 cells per month. This will rise to 300,000 cells per month within eight months, at which time the plant will be operating three shifts daily. Moli expects production to rise to 1.5 million cells per month by mid-1996.

A full-spectrum plant, the Moli facility includes research and development, product design engineering and engineering groups. The company's R&D activities

The global market for rechargeable energy systems is already immense, and Vic Seki, president of Moli Energy, projects a bright future for the company. "Until now, battery development has lagged behind the electronic industry," he says. "The new MOLICELL™ will provide manufacturers with a lighter, more powerful rechargeable battery for their products."

CANADA INCREASES INVESTMENT OPPORTUNITIES FOR WTO MEMBER COUNTRIES

Under Canada's investment rules on the acquisition of Canadian companies, only transactions above a certain value are subject to review by the federal government. And up to now, the thresholds have been higher for NAFTA – member countries than for others.

Now, as a result of changes flowing from the Uruguay Round of GATT and the establishment of the new World Trade Organization (WTO), the higher levels will apply to a much wider range of countries.

For investors in member nations of the WTO, the ceiling at which foreign acquisitions of Canadian companies become subject to review, will be the same as those

that apply to investors in NAFTA countries.

Previous thresholds for non-NAFTA countries were \$5 million (in terms of value of Canadian assets) for direct acquisitions and \$50 million for indirect acquisitions.* Under the new rules, when both the investor and the vendor are controlled in a WTO country, the ceiling for direct investment moves up to \$160 million (the level will vary from year to year to reflect inflation and other factors). Indirect acquisitions are no longer subject to review.

The exceptions to the new rules are financial services, transportation, uranium and cultural industries (a category that includes publication and distribution of

books, magazines, videos and music recordings). These sectors remain subject to the old thresholds.

As in the past, certain types of investments and acquisitions will not be subject to review. They include purchases of Canadian bonds, stocks or other instruments that do not involve the acquisition of control; or the acquisition of assets that do not constitute a business. Investments in related businesses – such as plant expansions or the opening of new mines by a mining company – are not subject to review. ♦

**An indirect acquisition is the acquisition of control of a Canadian business through acquisition of its parent outside Canada.*

New "Open Skies Agreement" Improves Canada - US Air Links



Canada-based businesses serving the U.S. market will benefit from a dramatic expansion of air links with the United States under the terms of a cross-border aviation agreement signed in Ottawa last February by Prime Minister Chrétien and President Clinton.

Under the "Open Skies" agreement, Canadian carriers will have unlimited rights to fly from anywhere in Canada to any point in the U.S. U.S. airlines will enjoy similar rights to destinations other than Toronto, Montreal and Vancouver. Equal access for U.S.

carriers to these cities will be phased in over three years. The arrangement will mean better connections and more competitive pricing for both passengers and cargo.

Complementing the accord is a planned expansion of pre-clearing facilities to allow travellers to the U.S. to clear customs before leaving Canada.

Canada-U.S. air passenger traffic is already the heaviest between any two nations, at 13 million passengers per year. ♦

MOLI • Continued from page 10

He adds that Moli is "pleased to hold the unique position of being the first in North America to produce lithium-ion batteries. This gives us a strong competitive edge over other manufacturers of rechargeable energy systems on this continent."

So strong are market prospects, in fact, that Moli Energy plans to build a second manufacturing plant to accommodate the new production lines needed to meet anticipated rising demand. ♦

Growing with Canada

■ **Canadian Pacific Hotels and Resorts Inc.** has announced it will move its global reservations centre from the United States to Canada. The new location will be Moncton, New Brunswick, a rapidly growing communications hub in eastern Canada. CP Hotels is the latest in a growing list of companies that have been drawn to New Brunswick by the province's advanced communications infrastructure. As summed up by Brian Freeman, a senior New Brunswick official: "New Brunswick residents probably have more power at the end of their phone lines than some Wall Street brokers."

Other corporations building communications centres in the province include the **Royal Bank of Canada**, **Canco**, a subsidiary of **General Electric Company**, and **United Parcel Service Canada**.

■ The Canadian and U.S. subsidiaries of **Hoechst-Roussel**, the German pharmaceutical giant, have entered into a strategic alliance with **Allelix Biopharmaceuticals Inc.** of Toronto, under which the two companies will invest a total of \$53 million in Allelix. Approximately \$43 million will be used to fund research into new biological treatments for schizophrenia and other psychiatric disorders and \$10 million to purchase shares in the Canadian company. One of a growing number of new Canadian biotechnology companies, Allelix focuses its research on anti-viral, anti-inflammatory and central nervous system therapeutics. The alliance underlines the growing stature of the Canadian pharmaceutical industry. Commenting on the agreement, Hoechst-Roussel Canada President Newton Williams said: "Alliances of this nature, where there is a strategic fit, reflect our continued commitment to increased R&D involvement in Canada."

■ The U.S. investment banking firm **Smith Barney Inc.** announced in January that the firm will launch an investment banking operation in Canada this year. Several other large U.S. financial institutions have set up shop in Canada recently including **Morgan Stanley Group Inc.**, **Goldman Sachs and Co.**, and **Salomon Brothers Inc.**

■ A Canada-U.K. joint venture project has been launched in Regina, Saskatchewan, to manufacture, supply and market a range of high-technology products, including an advanced carbon monoxide detector. Owned jointly by **SDI International** of Yorkshire, England, and a group of Western Canadian investors represented by **Prairie Financial Group of Regina**, the robotics-equipped plant will be operational by mid-1995 and will employ 35 people.◆



International Trade Minister Roy MacLaren (left), pictured with officials, interacts with his department's new FaxLink International information service, which offers a wide range of both general and investment-specific information on Canada to the world's business and investment communities. Operating 24 hours a day, 7 days a week, FaxLink can be reached at 613-944-6500 from a fax machine.

For more information

Find out more about investing in Canada by contacting the nearest Canadian embassy or consulate, or by contacting directly:

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Canada Investment News

is published under the direction of
Richard M. Bégin
Investment Marketing Division (TIM)
Investment and Technology Bureau
Foreign Affairs and International Trade