

The Center for Community Studies
at
Jefferson Community College

PRESENTATION OF RESULTS
September, 2001

PROJECT:
**BLACK RIVER CORRIDOR ECONOMIC
ADJUSTMENT STRATEGY**

TASK B

**Maximizing Economic Development Opportunities
from Canadian/US Trade**

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Presentation of Results

Black River Corridor Economic
Adjustment Strategy Project

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Executive Summary

The Center for Community Studies (CCS) was tasked under Task B of the Black River Corridor Economic Adjustment Strategy to conduct research into economic development opportunities associated with the region's proximity to Canada. Specifically, the team was tasked to examine general economic trends in the Canadian market, as well as to survey companies which had located in the region since the establishment of the North American Free Trade Agreement (NAFTA). Each of these tasks was expected to identify opportunities and recommendations for increasing the economic benefits derived from the Canadian market.

The analysis of Canadian economic trends did not reveal any major near-term opportunities that had not already been explored by one or more economic development agencies in the region. Canada has long been a target for our traditional industrial recruitment programs, as US firms have been targeted by Canadian recruiters.

The analysis did indicate a future shortage of skilled and unskilled labor in the Canadian economy, as well as increased demand for consumer goods in a number of areas. This trend drives a recommendation for a broader-based non-traditional partnership approach to economic development. Rather than focusing on attracting Canadian employers across the border, the CCS recommends area economic developers focus on building awareness of our labor force and facilitating partnerships between local and Canadian companies.

The survey of employers locating in the area since the onset of NAFTA revealed that very little real economic development has occurred since NAFTA began in 1994. NAFTA does not appear to have had any significant impact on the level of Canadian or other investment in the region.

The largest spur to regional investment proved to be the "Buy American" act, which attracted a major railcar manufacturer and some supporting industry. This led to a recommendation that local economic development agencies concentrate their partnership efforts on Canadian construction firms and others likely to be affected by the "Buy American" act. The construction contracts let through Ft Drum/The Army Corps of Engineers are recommended as initial targets of opportunity for these partnerships.

There was no evidence that specific economic development activities had led to employer investment during the period under study. Employer concerns over work force skill levels did produce a recommendation that special attention be paid to training and work force development programs in the region.

Recommendations

The CCS research team makes the following recommendations to obtain additional economic development benefits from the Northern New York region's proximity to Canada:

Use the Buy American Act to spur Partnership Development

JCJDC and associated economic development agencies in the region should conduct a promotional campaign to encourage Canadian construction companies to form joint ventures with New York companies, for the purpose of bidding on highway, airport and other large state/federal construction projects that are subject to the Buy American Act. In particular, the \$70 million in federal projects administered through the Ft Drum/Army Corps of Engineers contracting office should be a primary target.

The campaign should include direct mailings to Canadian construction firms in the Ontario region, as well as to Canadian economic development agencies and chambers of commerce. The centerpiece of the campaign should be a conference, held in Jefferson County, where construction firms from both sides of the border can meet and hear about issues such as the Buy American Act, future business trends/opportunities, and advice on joint ventures and partnerships. The conference should be organized with support from Jefferson Community College, other interested colleges/universities in St. Lawrence County, and counterpart institutions in Ontario. Appendix I provides an initial contact/ mailing list for Canadian economic development, business, and education contacts.

Successful joint ventures that result from this approach should be used as examples for other partnership opportunities and further expansion of the promotion program beyond the construction industry. Near term partnership opportunities beyond construction include:

- Trucking businesses, where a linkage between Canadian and US shippers could offset the costs of limited truck cargo backhaul in the US market.
- Professional services, such as law, finance, and medicine, where labor can cross the borders freely.
- Agriculture/food processing, where significant trade barriers remain in place for raw materials, but processed goods can benefit from a common brand strategy and distribution on both sides of the border.
- Internet/catalog mail order fulfillment operations. As Canadian and US companies continue to develop on-line and catalog businesses which rely on postal system delivery of goods, warehousing, picking, and mailing services on both sides of the border will become important.

Launch a “Future of Labor” Program in Canada

Canadian population trends promise a growing shortage of labor and rising labor costs in the next 5 – 15 years. This will present Canadian companies with significant challenges, which many should already be contemplating. JCJDC and associated regional economic development agencies should launch a near term campaign to inform Canadian companies and economic development agencies of these issues and propose partnership solutions.

This campaign should begin with a mailing campaign to major Canadian economic development agencies and key industry associations. Appendix II contains a recommended sample-mailing piece to be used for this purpose. The goal of the mailing should be to spark awareness of the potential problem, and to suggest that Northern New York might offer alternatives to some Canadian companies. Canadian businesses and economic development agencies should be encouraged to meet with their counterparts in Northern New York, to explore partnership potentials.

It is important that this campaign not be seen as an attempt by US agencies to entice Canadian firms to relocate in New York. That perception will only generate suspicion and impede any meaningful dialog. The proposed initial goal for any partnerships should be the study of the situation and development of joint solutions. Colleges/universities in both nations should be asked to play key roles in the further study of the problem and recommendation of solutions.

Make Training Services a Centerpiece of Economic Development Promotion and Incentives in the NNY Region

JCJDC and associated economic development agencies in the region should focus heavily on the provision of training services/subsidies to potential investors in the region. This focus should be made a central part of advertisements and other promotional activities that tout the region’s abundant supply of available workers.

Many of the companies that have located in the region since 1994, when interviewed for this report, complained of the difficulty in locating and retaining skilled labor. Most had moved into the area expecting an abundant labor supply, based on historically high levels of unemployment. While they could generally find enough workers, thin local population levels made it difficult to find enough of any particular skill. This was the most commonly reported problem in the research and one that is likely to dog any prospective investors in the region.

While we cannot make the total supply of labor larger, the existence of strong training programs is the best way to develop necessary skills among the existing work force.

Task B.1 - Canadian Research

The CCS research team conducted a detailed analysis of the Canadian economy, concentrating on major industries. This analysis identified specific trends that are relevant to economic development agencies in the North Country Alliance region. The industries studied included:

- General Manufacturing
- Technology/Telecommunications
- Extractive Industries – Mining, Oil and Gas, and Bulk Chemicals
- Paper and Forest Products
- Banking and Finance
- Agriculture

In addition, the team examined general economic and population trends and conditions in Canada, with an emphasis on Ontario and Quebec provinces.

Key Trends

The research identified specific trends that were deemed relevant to the goals of the project.

- Canadian companies are increasingly hungry for skilled labor. In surveys of Canadian manufacturers, access to skilled labor was identified as the single most important element in relocation decisions. At the same time, the Canadian workforce is aging and shrinking, with significant labor shortages forecast by 2015. Other than certain credentialed professionals (lawyers, engineers, etc.), NAFTA has no provisions for the easy flow of labor across borders.
- NAFTA has encouraged more Canadian companies to invest in the US economy, but has reduced the demand for US-based manufacturing or warehousing. Air and surface transportation rules now allow Canadian and US companies to ship most goods across the border without offloading or significant customs delays.
- The weak Canadian dollar is here to stay. With its export-oriented economy, Canada is well served by a weak currency against the US dollar and Japanese yen. The Canadian Central Bank has declined to take significant action to prop up the Canadian dollar and has publicly declined to use interest rates to encourage more demand for Canadian currency. There is no reason for businesses in Northern New York to expect a return to a stronger Canadian dollar for the foreseeable future.

- Canadian taxes are onerous. Personal, real estate, and corporate taxes are identified by Canadian manufacturers as key elements in location choice, behind only labor availability and transportation costs. High net worth Canadian citizens routinely become tax expatriates, essentially leaving the country to avoid taxes. This might provide some incentive for companies to locate in Northern New York. Overall, however, this trend should benefit lower tax states and countries more than New York.
- Canadian banks are highly consolidated, with 95% of all banking in the hands of five major banks. Since 1987, these banks have been able to own/operate their own stock brokerage firms, allowing them to offer a complete package of financial services. Although there are some small credit unions (called Caisse Populaire in Quebec) and a few medium-sized regional banks, Canada has no real equivalent to the US small/hometown banks.
- Canadian household spending generally parallels that of the US. Total Canadian consumer spending is expected to rise steadily through 2016. As the population ages, the strongest areas of spending growth will be for medical/dental prescriptions, home services, travel, golf, and charitable gifts. Lowest growth areas of spending include childcare, children’s clothing, and sporting equipment. Tables I and II show the top and bottom ten growth areas respectively.

Table I
Top 10 Fastest Projected Growth in Spending
% Change 1996 to 2016

| | |
|--|------|
| Prescription and fitting of dentures | 51.7 |
| Expenses on owned vacation homes | 50.7 |
| Clothing storage | 43.7 |
| Complete re-roofing | 42.5 |
| Horticultural services and snow removal services | 41.1 |
| Donations to charitable organizations | 40.9 |
| Golfing memberships | 40.3 |
| Gifts and money contributions to outside persons | 36.9 |
| Medicinal and pharmaceutical products | 36.8 |
| Motels | 36.4 |

People Patterns Consulting, Inc., 1999, Alberta, Canada

Table II
Bottom 10 Slowest Projected Growth in Spending
% Change 1996-2016

| | |
|--|------|
| Infant wear (under 4 years) | -1.0 |
| Childcare expenses (care inside and outside the home) | -0.8 |
| Disposable diapers | 0.2 |
| Gifts of furniture | 3.5 |
| Girls' wear (4-13 years) | 3.6 |
| Boys' wear (4-13 years) | 3.7 |
| Toys and dolls | 6.7 |
| Children's vehicles (inc. sleighs, toboggans, etc.) | 6.9 |
| Purchases of ice skates, ice hockey skates/other equipment | 7.5 |
| Supplies for nursery, elementary and secondary education | 8.4 |

People Patterns Consulting, Inc., 1999, Alberta, Canada

Using the “Buy American” Act

Sections 10a-d of Title 41 of the US Code constitute the “Buy American” Act (BAA). This law requires that a variety of goods purchased by or for the US government must be from US sources. The BAA is specifically applicable to:

- Aviation projects, including airport construction
- Highway construction projects
- Transit/Amtrak projects including rail bed construction and the manufacture of rail cars and other rolling stock
- International aid projects

The BAA mandates the use of US-made materials and requires production work be performed in the US on most affected contracts. Highway construction generally requires all steel to be from completely domestic sources. It can never have left the US.

The BAA does not affect the purchase of trucks or civil aircraft, but does affect rail cars and engines. Rail cars must be made from at least 60% (by cost) US-made parts and final assembly must occur in the US.

Waivers may be obtained, based on extreme (more than 25%) cost differences between foreign and US parts, as well as for items not produced in the US.

The CCS recommends that economic development activities aimed at attracting Canadian business to Northern New York include strong emphasis on firms likely to be affected by the BAA. Specifically, companies engaged in heavy construction (highway and other concrete work), as well as suppliers to the rail industry should be targeted.

The principal strategy for construction firms should be the encouragement of joint ventures with

firms in Northern New York. By partnering existing local construction companies, with their easy access to the local construction labor force and US status, with better-capitalized and more sophisticated Canadian firms, powerful synergies could be created. This would position the new joint companies to compete for domestic construction work, including the \$70 million in construction work from Ft. Drum and the US Army Corps of Engineers that currently leaves the area each year. The new companies could also compete for Canadian construction work, taking advantage of the 36% of the adult population in Jefferson County who have construction skills.

General Background

Canada has an affluent, high-tech industrial economy that closely resembles the United States in its per capita output, market-oriented economic system, and pattern of production. The Canadian economy grew by 4.5 percent in 1999, eclipsing its 3.3 percent growth in 1998, as it rode the wave of a booming United States economy. In 2001, output is forecast to ease to a more sustainable 3 - 3.5 percent.

Private consumption is forecast to continue to grow. Consumer spending is fueled by strong growth in real wages and low unemployment, which dropped to a 24-year low of 6.6 percent in May 2000. The FY2000-2001 Canadian federal budget provides fiscal stimulus in the form of federal tax cuts, both personal and corporate and investment programs for health, education and technology innovation. Business investment rose by 9.4 percent in 1999, and was expected to continue relatively strong growth in 2000 as a result of firming commodity prices and high export demand, in part stimulated by the low Canadian dollar.

Growth in Canada's export sector should continue to be fueled by ongoing demand in the US and Canada's weak dollar. Global economic recovery, particularly in East Asia and Latin America, will continue to boost Canadian export revenues. The combination of a weak Canadian dollar and upward pressure from record high petroleum prices could push Canada's inflation rate to the upper limit of the Bank of Canada's 1-3 percent target band. Canada's core inflation rate (Consumer Price Index less food and energy) is expected to move up to the middle of the target band.

Canadian Labor and Demographics

According to Statistics Canada, the Canadian population is aging even more rapidly than that of the United States. This trend is projected to cause widespread labor shortages by 2015, and to have significant affects on Canadian spending and consumption patterns.

The Canadian birth rate dropped precipitously from a high of 3.94 children per woman in 1960 to 1.55 in 1977. The rate is projected to continue its decline, reaching 1.32 children per woman in 2016. Because the natural increase (deaths – births) of a population is determined by its past fertility and current death rate, Canada's total population will grow by only 125,000 per year in the next few years. It will reach statistic zero population growth (ZPG) by 2016.

At the same time, as in the US, life spans are increasing. The result is a population that becomes steadily older. This aging affect will act to reduce the number of people available for the workforce.

As older workers are typically less mobile, less likely to change jobs, and are more likely to command higher salaries, Canadian companies are expected to experience increasing difficulty locating and attracting the workers they need.

While there will certainly be some compensating effects – increased workforce participation by marginal or older workers, increased productivity, and increased immigration, these are very unlikely to alleviate the problem for Canadian companies. At the same time, those factors will generally act to raise real salaries, driving up the cost of labor in Canada.

The impact of these trends will be felt with increasing severity as time passes. Different regions will be affected differently, with Ontario least affected and Quebec and the Western provinces most strongly affected.

A Note on Immigration

These estimates were prepared assuming a slightly higher annual net immigration rate than currently exists. To provide any real relief to Canadian business, the current immigration rate would need to be expanded 2-3 times, preferably within the next 4-5 years. Given the political and social turmoil associated with the current (very high) levels of immigration into Canada, it is unlikely that rates will be allowed to rise significantly.

As the Canadian population ages and the workforce shrinks, incomes and consumer spending are expected to rise. Household expenditures are forecast to increase 6.5% in the next five years (2001-2006) and a total of 15.3% (in constant dollars) by 2016. This will increase the demand for consumer goods and services during a period when Canadian companies will find it increasingly expensive to operate.

The CCS recommends that Northern New York economic development agencies make a significant effort to establish relationships between US and Canadian firms now. The real impact of these trends is several years away, but building awareness and communications between the two industry groups will help position US firms to attract Canadian business and create jobs locally.

Balance of Payments Situation

Canada's deficit on its global current account dropped in 1999 to US\$2.3 billion from US\$11 billion in 1998. With respect to US-Canada bilateral trade, burgeoning demand for Canadian exports from a soaring US economy resulted in Canada's merchandise trade surplus with the = United States rising by US\$15.4 billion between 1998 and 1999, to US\$32.1 billion. Total two-way merchandise trade between the United States and Canada was US\$365 billion in 1999. When services and investment income are included, total two-way trade was over US\$450 billion. Canada is the largest single-country export market for the United States. In addition, total two-way merchandise trade between the United States and Canada is larger than total US merchandise trade with the entire European Union, or total US merchandise trade with Japan. The most traded commodities are transportation equipment, machinery and equipment, energy, other natural resources and agricultural products.

The stock of US foreign direct investment (FDI) in Canada was US\$116.6 billion in 1999, up US\$12.7 billion from the previous year. US investment in Canada represents 72.2 percent of total FDI in the country and are concentrated in manufacturing, finance, and the resource sectors. The stock of Canadian FDI in the United States amounts to 52 percent of total Canadian direct investment abroad. In 1999, total Canadian FDI in the US, including investments from Canadian holding companies in the Netherlands, rose to US\$90.4 billion from US\$85 billion year earlier. Investment was concentrated in finance and insurance, metallic minerals and metal products, communications, and chemical products.

Transportation Infrastructure

According to the Global Competitiveness Report produced by the World Economic Forum, Canada's transportation infrastructure ranked first among the G-7 countries. This ranking is based on the extent to which a country's transportation infrastructure meets the requirements of an internationally competitive business, and measures the adequacy of roads, railroads, air transport and port access. Canada's truck, air and rail services are well integrated with US networks, providing efficient access to consumers and suppliers throughout North America.

Canada's two major railways, Canadian National Railways (CNR) and the Canadian Pacific Railway Company (CPR) offer rail services on a national scale, including inter-modal services, to shippers and receivers from the Atlantic Ocean to the Pacific Ocean. Both transcontinental railways are already highly integrated with the rail transportation systems in the United States.

Canada has more than 500,000 miles of public roads. The 4,500-mile Trans-Canada Highway is the country's major east-west route, linking all 10 provinces. The road network includes a large number of crossing points with the US, eighteen of which are major trade gateways. Every year, roughly ten million trucks cross the United States-Canada border, and trucks carry about 70 percent of the annual US\$365 billion dollars worth of US-Canada merchandise trade.

Both US and Canadian customs rules regarding cabotage were liberalized in 1997. Under the new rules, as long as cargo is international, the trucking equipment will also be considered inter-national and free from cabotage restrictions. In 1999, Canada Customs liberalized cabotage restrictions on equipment moving without payload. Canada currently permits domestic pick-up and drop-off by US trucks, provided that the domestic shipment is secondary to the international shipment and that the route taken for the domestic load does not deviate substantially from the route for the international cargo. Existing immigration rules governing drivers, however, have not been affected by these changes.

Canada is a maritime nation with access to three oceans, the Pacific, the Atlantic and the Arctic, and to the world's longest inland waterway open to ocean shipping, the Great Lakes/St. Lawrence Seaway System. In the eastern part of Canada, shipments are divided among several ports, including Montreal, Halifax, Saint John and Quebec City. Despite the cold climate in winter, many of Canada's deep-water ports are open year round. Modern container facilities at major ports, such as Montreal connects with inland container trains to ensure rapid movement of goods throughout North America. The Port of Montreal is Canada's leading container port because of its inland location, as well as its rail and road links to major markets in central Canada and the US northeast and mid-west.

Canada has a highly developed air transportation system that includes 10 major international airports and some 300 smaller airports. Air connections between the United States and Canada are extensive, with well-developed facilities for freight and passenger traffic. In the airline industry, Canadian and American carriers have unlimited access to fly between any Canada-US city pair. Twenty-five US carriers and 47 major foreign air carriers are licensed to provide scheduled airline services to and from Canada. Travel between the US and Canada is facilitated by the presence of US inspection agencies (Customs and INS) who "pre-clear" US-bound passengers at seven airports in Canada, including Montreal, Ottawa and Toronto.

Information Technology

Canada is one of the most "wired" nations in the world: all major cities are well-connected to a high-speed internet backbone and, according to OECD figures, Canada has the lowest internet access costs among G-7 countries. The Government of Canada has made a priority of supporting high-speed research networks and Internet access for institutions and communities. An example is the world's first all-optical network designed to carry only Internet data traffic. This network, called CA*Net3 will have a bandwidth capacity of 40 gigabytes per second - about sixteen times greater than the capacity planned for the fastest current US initiative, the Abilene network. Already spanning much of Canada, CA*Net3 is expected to be complete in 2001. Jefferson County and the North Country has been wise in financing and installing a fibre optic cable connection through Kingston, Ontario to take advantage of this communications capacity.

Canadian Agriculture

Canada has a healthy and productive agricultural sector, although only 5% of its total landmass is arable. Primary agricultural exports include: wheat, barley, oilseed, tobacco, fruits and vegetables, dairy products, forest products, and fish.

Canadian agriculture, like that of most nations (including the US) is protected behind a maze of tariff barriers. These are not generally addressed by NAFTA and are the subject of almost constant bickering through the World Trade Organization.

Canada currently has strong barriers against US dairy products other than cheese. Both fluid milk and butter face huge tariffs. In return, while the US allows the import of Canadian butter, it blocks fluid milk and is considering a punitive tariff on some Canadian grains. Because of the political nature of agriculture and the persistence of various subsidy programs, it is unlikely that raw agricultural products will ever trade freely across the US/Canadian border. The more agricultural goods are processed, the more likely they are to trade freely.

Because the Canadian farming sector is heavily regulated, with significant political and economic barriers to entry, some Canadian farmers have become interested in buying US farms. Locally, these efforts have been largely stymied by US immigration laws which prevent these investors from working their farms.

Principal Growth Sectors

Growth is expected in several sectors, including forest products, petrochemicals, oil and gas, high technology, biotechnology and mining technology. Central Canada (Ontario and Quebec) is a major participant in the global high-tech surge. Large and small firms are at the leading edge of fiber optics, wireless telecommunications and information technology system developments, and substantial new investment is planned. Output in the electrical and electronics industry, which includes integrated computer components, has recorded double-digit growth for three straight years. In addition, aerospace, mass transportation, telecommunications carriers and computer service firms are showing particular strength.

The Alliance of Manufacturers and Exporters Canada conducted a survey of its members' perceptions about business climate and their plans and expectations for 2000-2002. 524 of their members (about 20 percent) responded to the survey. Forty-five percent of the respondents were headquartered in Ontario and 15 percent of the respondents were Quebec companies. More than 90 percent of the respondents expect to make the same or increased levels of new investments in the coming two years—principally in the areas of construction, equipment and research and development. A full 54 percent of Canadian manufacturers and exporters intend to increase employment in 2001 and 45 percent expect to do so again in 2002.

Slightly over 62 percent of manufacturers and exporters expect to expand their business over the next three years. The likely locations for business expansion reported in this study, in order of preference are: Canada (76%), the United States (21%), followed by Europe (7%), South America (6%) and Asia, Mexico and Japan.

International Business Partnerships

Canadian companies are looking for international business partners, particularly for purposes of distribution, establishing manufacturing joint ventures, and sourcing components, services and technologies. The **Alliance** study reports Canadian manufacturers are seeking the following:

| Partnership Area | Percent |
|--------------------------------|---------|
| Distribution | 41% |
| Manufacturing Joint Ventures | 29% |
| Sourcing Components | 26% |
| Sourcing Services & Technology | 17% |
| Licensing Technology | 8% |
| Service Sector Joint Ventures | 6% |

When asked about impacts of the North American Free Trade Act (NAFTA), 23 percent of the respondents indicated that they planned to invest more in the United States and 6 percent of the respondents indicated that they planned to invest more in Mexico (the next largest investment location).

What Factors Determine Investment Location?

Canadian companies were asked to identify the three most important factors they consider in selecting a location for a new facility. Heading the list were access to skilled labor (see Table –, below, for skill shortage analysis), transportation costs and taxes (personal, realty and corporate). Factors influencing location broke down as follows:

| | |
|-------------------------|-----|
| Access to Skilled Labor | 72% |
| Transportation Costs | 60% |
| Personal Taxes | 28% |
| Realty Taxes | 25% |
| Corporate Taxes | 23% |
| Location of Suppliers | 19% |
| Infrastructure Quality | 18% |
| Other Occupancy Costs | 15% |
| Competitors' Locations | 12% |
| Access to Markets | 8% |
| Government Incentives | 8% |
| Other Factors | 3% |

Source: 2000-2002 Management Issues Survey. The Alliance of Manufacturers and Exporters Canada.

Since “Access to Skilled Labor” ranks first in reported factors influencing (re)location decisions, a competitive community would want to offer skills reported to be in short supply where Canadian manufacturers and exporters now have facilities. The **Alliance** study reports shortages in the following skill areas:

| Skill Area | Percent Reporting |
|------------------------------------|-------------------|
| Manufacturing Management | 51% |
| Engineering | 47% |
| Tool & Die | 38% |
| Machining | 35% |
| Design | 34% |
| Marketing | 32% |
| Information Technology | 29% |
| Software Programming & Development | 26% |
| Scientific Research | 25% |
| Export Development | 24% |
| Welding | 18% |
| Other Technical Skills | 28% |

Alliance members are rapidly increasing their individual investments in advanced manufacturing technologies. A labor force with experience in some aspects of these new technologies would also prove attractive. The highest levels of current and planned investment in advanced manufacturing technologies are in the areas of computer assisted design/engineering; computer assisted design/manufacturing; computer assisted procurement (including business-to-business electronic marketplaces); computer-integrated manufacturing, supervisory control and data acquisition; and rapid prototyping.

Joint Ventures/Licensing

In the broadest sense, any arrangement in which two or more businesses combine resources for some definable undertaking is considered a joint venture. The Canadian legal system provides great flexibility and imposes few restrictions as to the form which joint ventures may take, such as equity or non-equity. Some joint ventures require approval from the Government of Canada under the Investment Canada Act. Approval is based on the "net benefit" of the venture to Canada. The "benefit criteria" include: the level of Canadian participation; the positive impact on productivity; technological development; product innovation; industrial efficiency; and product variety in Canada. In certain key industries, joint ventures with Canadian partners may prove to be the most effective or, in some cases, the only means of market entry for US companies.

There are a variety of reasons that Canada is an attractive market for foreign licensors. Most notably, Canada has no regulatory scheme governing licensing arrangements. Foreign licensors also do not require registration or public disclosure. Moreover, the Investment Canada Act has no direct application to licensing unless it relates in some way to the control of a Canadian enterprise.

Establishing an Office in Canada

Incorporation in Canada is a straightforward and inexpensive procedure, accomplished federally under the Canada Business Corporations Act, or provincially under provincial corporate statutes. The major differences between incorporating federally and provincially are: the need to publicize financial statements, fees, and turnaround time on the incorporation process. Incorporating federally allows companies to conduct business in any province, although the corporation may still be required to pay a license or registration fee in some provinces.

A flat fee of C\$500 (approximately US\$340) is charged to incorporate federally. Fee structures vary among the provinces; however, most provinces charge approximately C\$200-300. An average of three-four weeks is required to process an application. Information on incorporating federally under the Canada Business Corporations Act can be obtained from Industry Canada's Corporation Branch.

A company incorporated under the laws of one province must register to operate in each of the other provinces in which it wants to do business. An important exception is the reciprocal arrangement between the provinces of Ontario and Quebec that allows companies incorporated under regulations in one of these provinces to do business in the other without additional licensing requirements. Firms established or operating in the province of Quebec must also comply with the requirements of Quebec's Charter of the French Language and adopt a French corporate name. Firms considering establishing operations in Quebec are advised to contact the Office de la Langue Francaise (Office of the French Language), which routinely works with companies to develop plans for complying with Quebec's language laws.

Selling to the Government of Canada

The US-Canada Free Trade Agreement (FTA) expanded the size of Canada's federal government procurement markets by lowering the threshold for contracts offered by federal entities to as low as C\$25,000 (approximately US\$17,360) for goods and C\$100,000 (US\$69,440) for services and construction. It opened these markets to free, non-discriminatory competition between US and Canadian suppliers. The FTA stipulated clear, fair rules of bid selection and provided for an effective bid challenge system. This meant that a US company bidding on a Government of Canada contract could compete on equal footing with its Canadian competitors, and would be judged solely on its ability to deliver a low-cost, high-quality product.

The NAFTA incorporated FTA provisions and expanded them to cover services and contracts offered by selected Crown corporations. The new, liberalized NAFTA thresholds make the following available to US firms:

- Contracts of C\$37,200 (approx. US\$23,750) or more offered by a federal entity such as a Department or Agency (e.g., Industry Canada) for goods. The list of these federal entities was expanded to include Communication Canada and Transport Canada.
- Contracts of C\$80,900 (approx. US\$56,200) or more offered by a federal entity for services.
- Contracts of C\$10.5 million (approx. US\$7.3 million) or more offered by a federal entity for construction services.

- Contracts of C\$404,600 (approx. US\$281,000) or more offered by a Crown corporation or other federal government enterprise for goods and services.
- Contracts of C\$12.9 million (approx. US\$8.95 million) offered by Crown corporations or federal government enterprises for construction services.

The WTO Agreement on Government Procurement (WTO-AGP), which came into effect on January 1, 1996, applies to most federal government departments. It is a multilateral agreement that aims to secure greater international competition. The WTO-AGP applies to the procurement of goods and services valued at C\$261,200 (approx. US\$181,400) or more, and construction requirements valued at C\$10 million (approx. US\$6.94 million) or more.

The Canadian government's official internet-based electronic tendering service, MERX, gives subscribers access to more than 1,500 open tenders from the federal government, provincial governments, and many municipalities, school boards, universities and hospitals. Approximately 200 new tenders are posted daily. US companies can log onto MERX (www.merx.cebra.com) free of charge to view and search open tenders. Bid documents can then be ordered directly from the website. MERX subscribers, who pay C\$7.95 per month, have access to additional services, such as reduced prices for bid documents, lists of companies that have ordered a particular bid document, and a matching service that informs users of opportunities that fit their pre-determined criteria. MERX also has a call center for technical support or general questions, which is available 24 hours a day, seven days a week at: 1-800-964-MERX (6379).

Services Industries

Since the “Services Industries” classification includes high-tech communications and computer programming, a current profile of this sector may be of interest in recruiting similar firms to the North Country—either to do business with Canada or to attract Canadian firms seeking to expand operations to the United States.

The services sectors are a significant part of the Canadian economy. In 1998, services accounted for almost three-fourths of Canada's GDP and totaled US\$351 billion. The services sectors have been growing at a faster pace than the manufacturing and primary industries. Every decade since the 1960s, growth in communication services and business services has been more than 50 percent higher than the growth rate of the total Canadian economy.

Canada has a trade deficit in services overall and with the United States; however, Canada's exports of services are growing faster than its imports of services, resulting in a steady decrease in Canada's services trade deficit over the last few years. The majority of Canada's trade in services is with the US. In 1999, 60 percent of Canada's services exports went to the United States, while 67 percent of its merchandise imports came from the US.

CANADA'S SERVICES TRADE (US\$billions)

| | 1998 | 1999 | 2000 | 20 |
|--------------------------|-------|-------|-------|----|
| Exports | 31.0 | 33.1 | 36.6 | 20 |
| Imports | 35.7 | 37.6 | 40.9 | 20 |
| Imports from US | 22.0 | 23.1 | 25.1 | 20 |
| Share of Imports from US | 61.6% | 61.5% | 61.5% | 20 |
| Exchange Rate | .6743 | .6730 | .6944 | 20 |

Source: Statistics Canada, Department of Foreign Affairs and International Trade.

The Free Trade Agreement (FTA) was the first trade agreement to include trade in services. The Agreement ensures that companies in more than 150 service sectors can provide their services in the partner country without discrimination. The FTA does not change existing regulations governing services in the two countries, but locks in current levels of protection. In effect, the Canadian Government is prohibited from passing new legislation that would further restrict the right of a US-based engineering, advertising or other covered service firm from doing business in Canada. The services chapter of the FTA includes special provisions for the architecture, tourism, and telecommunications sectors. NAFTA further extended agreements on trade in services to cover nearly all service sectors and removed citizenship or permanent residency requirements for the licensing of professional service providers.

The NAFTA provisions on the temporary entry of people have significantly opened up the opportunities for US and Mexican firms in the service sector in Canada. Under this section of NAFTA, individuals considered "professionals" are automatically granted a work authorization for Canada. This allows individuals in many categories, such as architects, management consultants, and physicists to work for Canadian companies without being subjected to Canada's job validation process. (A process by which it must be shown that there is a shortage of qualified Canadians that could perform the work required). However, these NAFTA provisions do not override other domestic requirements for individuals in those professions, such as, in some cases, the need to be licensed in a province in order to do business there. In addition, there are many categories that are not included in the list of professionals, such as language instructors and IT trainers. Individuals in these categories are subject to Canada's job validation process. Citizenship and Immigration Canada has published a guide for American and Mexican businesspersons that explains the provisions governing entry of temporary foreign workers under NAFTA.

Advances in technology have opened up new opportunities for services exports to Canada. Many services that were previously considered "unsellable" due to low profit margins that did not allow for required travel costs, or due to restrictions on the temporary entry of people, can now be exported using information technology. According to a recent Canadian government report, "the informatics infrastructure (i.e., information technology + telecommunications) facilitates services trade in much the same way as the transportation infrastructure supports goods trade." Technologies

such as e-mail, the Internet, and video-conferencing allow for self-paced delivery and long-distance delivery, distance interaction, and client review of work-in-progress; all of which cut down on or eliminate the need to travel to the client's location. Reduced travel costs often make US exporters more competitive with local companies.

For the purposes of its Country Commercial Guide, the U. S. Department of Commerce divides Canada into six marketing regions. Our study assumes that two of these regions—the Province of Quebec and the Province of Ontario—will be of primary interest to North Country residents.

The Province of Quebec

The province of Quebec, Canada's only French-speaking province, has been experiencing an economic renaissance in recent years, when compared to its own performance for the greater part of the 1990s and that of Canada as a whole. The city of Montreal, Quebec's economic and cultural hub, is poised to become one of the leading high-technology centers in North America. Despite the province's history of separatist politics, the provincial government has been active in promoting Quebec as open to international business. In fact, Quebec now stands as the sixth largest trading partner of the United States. Companies in the province's aerospace, telecommunications, pharmaceutical and biotechnology, and software and multimedia sectors have developed into global giants. As a result, these latter-mentioned sectors will continue to provide many opportunities for US exporters.

In 1999, the Quebec economy achieved real growth of 3.7 percent, which compared favorably to its past performance and to economic growth in other areas of Canada. The Bank of Montreal is currently predicting that Quebec's economy will grow by 3.8 percent in 2000 and then slow to 2.3 percent growth during 2001, paralleling a broader North American economic cool-off. Over the 2002-2004 period, Quebec's GDP is expected to grow at an annual rate of 2.8 percent. Strong investment, including US investment, has characterized recent growth trends, and with between 400 and 500 US firms established in Quebec, Quebec's position as the sixth most important world trading partner of the United States ensures growing opportunities for years to come. Quebec has also been a strong supporter of free trade, including the US-Canada FTA, NAFTA, and the envisioned FTAA, and it is continuing to grow exports to the United States, which already exceed 83 per cent of its total exports. On the import side for Quebec, purchases of US goods amounted to US\$19.4 billion.

Quebec generally welcomes both foreign investors and foreign suppliers. Quebec depends heavily on trade with the United States, especially in leading growth sectors, thus ensuring warm relations with its commercial partners to the south.

The Province Of Ontario

With its substantial and highly diverse industrial base, Ontario is the economic engine of Canada. In 1999, the province accounted for 38 percent of Canada's total population, 41 percent of its gross domestic product, and over 50 percent of its manufacturing shipments.

Ontario's GDP grew by 5.7 percent in real terms in 1999, while the Canadian economy as a whole grew by 4.2 percent. The economy in Ontario is healthier than at any time since the late 1980's. The

province's unemployment rate, which averaged 1.3-percentage points below the national average during 1999, declined to 5.7 percent in early 2000. Manufacturing shipments in Ontario increased by nearly 12 percent from 1998 to 1999, a growth rate considerably higher than that found in the other provinces.

Ontario rivals the State of Michigan as North America's largest auto assembly center. The province is noted for its automotive parts and accessories production, steel, industrial chemicals, aerospace, food processing, and computer software industries. Ontario is also at the forefront in fields such as biotechnology and telecommunications.

The province has a modern infrastructure that is fully integrated, with road, rail, water, and air transportation systems facilitating the north-south flows of people and goods. The volume of trade between and the United States and Ontario is enormous, over US\$220 billion in 1999, making the province the number two US trading partner, after (all of) Canada. Ontario's largest state trading partner is Michigan, because of the auto industry, although the province also does substantial business with New York, Ohio, California, and Illinois. In 1999, Ontario's exports accounted for 30 percent of its GDP, with an extraordinary 93 percent of these exports destined for the United States. Toronto is also home to half of Canada's largest financial institutions, percent of its international banks, and over 75 percent of US subsidiaries in Canada. In the Ottawa area, Canada's federal capital, the Province's high-tech sector has experienced remarkable growth in the last five years. Continued steady expansion of the technology sector is predicted during the foreseeable future.

Task B.2 Company Profiles

Using lists developed by CITEC, Inc. under subcontract, the CCS team identified 2,139 companies that had established themselves in the North Country Alliance region since the NAFTA treaty took effect in 1994. The vast bulk of these companies were sole proprietorships, usually in the retail or general services sector.

This list included 102 manufacturing firms (of which, only 15 had 25 or more employees) and 63 non-manufacturing companies who employed 25 workers or more. Although the original proposal limited interviews to only firms with 25 or more employees, the CCS team decided to interview some smaller companies, to gain a clearer picture.

An interview list was developed for those companies deemed relevant to this research. The list included:

- All manufacturing companies, with more than 10 employees
- All companies with more than 25 employees, unless otherwise eliminated.
- All companies with more than 10 employees in the computer/technology sectors.
- Other companies of specific interest to the research.

The list specifically excluded:

- All companies which were no longer in operation, e.g., the Deferiet Paper Company.
- “New” companies that were only name changes or had experienced a change in ownership, without any change in location or operations.
- Retail/restaurant and other local service businesses which had no obvious relevance.

Thirty-one companies were contacted for interviews with 18 agreeing to participate. Interviews were conducted by telephone, with each contact being asked:

- What caused you to open the plant in NNY?
- What caused you to choose your NNY location?
- What other choices did you consider in selecting your site?
- Why didn't you select any of these?
- How did you learn about NNY and your current location?
- What were/are the strongest drawbacks to operating your current location?
- If you had it to do again, would you choose the same location for your site?
- If not, what other sites/types of sites would you consider?
- What role did the state or local economic development community play in your location choice?
- Does the state or local economic development agency continue to support your business?
- What recommendations would you offer to attract other businesses like yours to the NNY region?

Details of each successful interview are included in Appendix III. A CD-ROM listing of all 2,139

companies, with employment and contact data, is submitted with this report.

Conclusions

The real level of economic development in the region, since the establishment of NAFTA, has been quite small. Other than the location of the Bombardier cluster, the primary motivator for Canadian investment in the area has been the desire for warehouse space and access to the U.S. Postal system for consumer product deliveries.

Bombardier

In 1994, Bombardier Mass Transit, Inc., a wholly owned U.S. subsidiary of Bombardier, Inc. of Montreal, Quebec, Canada, was established at the former Plattsburgh Air Force Base, in Plattsburgh, New York. This plant employs roughly 100 workers in the manufacture of rail cars for the New York City subway system and other U.S. customers.

Bombardier chose the Plattsburgh location based on the following criteria:

- The need for a U.S. location to avoid the restrictions of the “Buy American” act. (See details in Section B.2.)
- The need for a New York State location to maximize competitiveness for the key New York City subway contract.
- Best proximity to corporate headquarters in Montreal.
- Availability of a plentiful and skilled workforce.
- Substantial assistance from state and local economic development agencies.

Along with the Bombardier plant, a cluster of smaller manufacturing and industrial service companies located in the Plattsburgh vicinity at roughly the same time. These companies were primarily subsidiaries of Canadian manufacturers who had long-standing relationships with Bombardier in Canada. They established facilities in New York to supply Bombardier and help them maintain adequate U.S. content, as required by the Buy American act.

This cluster of companies represent the majority of all new manufacturing capacity established in Northern New York during the period of study. Most of these companies indicate that they would not have established a U.S. subsidiary in the area without Bombardier.

Other Companies

A summary of the results of the interviews with all manufacturers is included in Appendix III.

Location choices

Other than the Bombardier cluster, manufacturers indicated that they had selected the Northern New York area for some common reasons, including:

- Access to Canadian markets as well as Northeast U.S.
- Perceived availability of affordable/plentiful labor supply.
- Bought/expanded existing business or founders already lived in the region.

When asked if they would choose the same location today, if they had the choice again, most said yes, with some restrictions. The most common concerns with location included:

- Poor supply of skilled labor. Most firms reported difficulty finding enough workers with specific skills. High unemployment rates had given the impression of a plentiful workforce. Unfortunately, many firms had discovered that our relatively sparse population base limits the supply of particular skills.
- High transportation costs. Goods produced in the region must be trucked long distances over an underdeveloped road system. The high cost of fuel, plus extra fees triggered by a lack of truck back haul (return shipments), render truck transport particularly expensive in Northern New York.
- Disappointment with some economic development incentives, particularly tax breaks.

Recommendations

There is no evidence that any specific economic development strategy was particularly effective in attracting companies to Northern New York. Only the NYS STRAP program was mentioned specifically by one company. In virtually every case, strategic elements such as proximity to markets or existing customer/supplier relationships outweighed any direct impact from economic development incentives.

One of the strongest attractors to the region was the perception that labor was plentiful. The period studied was one of record employment levels in the U.S and Canada, where labor was at a premium, and a strong labor pool was likely to be a powerful incentive.

Once here, however, many companies were unhappy with skill levels in the workforce. This is likely to make training programs extremely valuable to local companies or prospects. The CCS recommends economic development agencies in the North Country Alliance region continue to focus on available labor as a key promotional element, but with special emphasis placed on training programs to ensure needed skills. Training programs and subsidies should be expanded where possible, even at the expense of other economic development incentive programs.

The NAFTA treaty does not appear to have had a significant positive impact on location decisions in the region. In fact, by rendering the border more porous to many goods and services, it may have reduced the attractiveness of the area for Canadian companies. They can retain a Canadian location and easily sell directly to customers in the U.S.

The single largest impact on economic development in the region appears to be the “Buy American” act, which ultimately brought the Bombardier cluster to Plattsburgh. The “Buy American” act is not superceded by the NAFTA treaty and continues to influence location decisions by foreign companies interested in obtaining construction and transportation equipment contracts in the U.S. The CCS recommends that economic development agencies in the North Country Alliance region develop strategies aimed at the Canadian major construction and rail equipment industries, taking advantage of opportunities offered by the “Buy American” act.

Appendix I

Canadian Business/Economic Development Contacts

The following list includes key economic development and business support offices in Quebec and Ontario. These are recommended as initial points of contact for economic development outreach efforts from NNY, as well as sources of further information and referral within Canada.

Economic Development Contacts

Economic Development Association of Canada
7 Innovation Drive
Flamborough, Ontario, Canada L9H 7H9
(905) 689-8771
(905) 689-5925-Fax
E-mail address: edac@bigwave.ca
Website address: www.edac.ca

Economic Development Council of Ontario
1730 Alguire Street
Cornwall, Ontario, Canada K6J 3N4
(613) 932-3897
(613) 932-8317-Fax
E-mail address: EDCO@sympatica.ca
Website address: www.edco.on.ca

Buy American Contacts

Canadian Construction Association
75 Albert Street-Suite 400
Ottawa, Ontario, Canada K1P 5E7
(613) 236-9455
(613) 236-9526-Fax
Website address: www.cca-acc.com

Canadian Urban Transit Association
56 York Street-Suite 1401
Toronto, Ontario, Canada M5J 1RT
(416) 365-4800
(416) 365-1295-Fax
E-mail address: transit@cutaactu.ca
Website address: www.cutaactu.ca

General Trade/Business Contacts

A. US Embassy and Consulates in Canada

Commercial Service Canada's Home Page address on the Internet is: www.usatrade.ca.

US Embassy – Ottawa
Commercial Service
United States Embassy
PO Box 866, Station “B”
Ottawa, Ontario, Canada K1P 5T1
(613) 688-5217
(613) 238-5999-Fax
Contact: Dolores F. Harrod, Minister Counselor for Commercial Affairs
E-mail address: Ottawa.office.box@mail.doc.gov

US Consulate General – Montreal
Commercial Service
455 Rene Levesque Boulevard West, 19th Floor
Montreal, Quebec, Canada H2Z 1Z2
(514) 398-0673 Ext. 2250
(514) 398-0711-Fax
Contact: Donald Businger, Principal Commercial Officer
E-mail address: Montreal.office.box@mail.doc.gov

US Consulate General – Toronto
480 University Avenue, Suite 602
Toronto, Ontario, Canada M5G 1V2
(416) 595-5406 Ext. 221
(416) 595-5419-Fax
Contact: Patrick Santillo, Principal Commercial officer
E-mail address: Toronto.office.box@mail.doc.gov

B. US-Canadian Bilateral Business Councils and Chambers of Commerce

Canada-US Relations Committee of the US-Canadian Chambers of Commerce
1615 H Street NW
Washington, DC 20062
(202) 659-6000
(202) 463-5836-Fax
E-mail address: custsvc@uschamber.com
Website address: www.uschamber.com

Canadian-American Business Council
1629 K Street NW, Suite 1100
Washington, DC 20006
(202) 785-6717
(202) 331-4212-Fax
E-mail address: canambusco@aol.com
Website address: www.canambusco.org

C. Canadian Trade and Industry Associations

Alliance of Manufacturers and Exporters Canada
5995 Avebury Road, Suite 900
Mississauga, Ontario, Canada L5R 3P9
(905) 568-8300
(905) 568-8330-Fax
Website address: www.cme-mec.ca

Automotive Industries Association of Canada
1272 Wellington Street
Ottawa, Ontario, Canada K1Y 3A7
(613) 728-5821
(613) 728-6021-Fax
Website address: www.aiacanada.com

CATA Alliance (Canadian Advanced Technology Association)
388 Albert Street
Ottawa, Ontario, Canada K1R 5B2
(613) 236-6550
(613) 236-8189-Fax
Website address: www.cata.ca

Canadian Chamber of Commerce
350 Sparks Street, Suite 501
Ottawa, Ontario, Canada K1R 7S8
(613) 238-4000
(613) 238-7643-Fax
Website address: www.chamber.canetwebsite:navigator.com

Canadian Importers Association, Inc.
700-210 Dundas Street West
Toronto, Ontario, Canada M5G 2E8
(416) 595-5333
(416) 595-8226-Fax
Website address: www.importers.ca

Conference Board of Canada
255 Smyth Road
Ottawa, Ontario, Canada K1H 8M7
(613) 526-3280
(613) 526-4857-Fax
Website address: www.conferenceboard.ca

Information Technology Association of Canada (ITAC)
2800 Skymark Avenue, Suite 402
Mississauga, Ontario, Canada L4W 5A6
(905) 602-8345
(905) 602-8346-Fax
Website address: www.itac.ca

Ottawa Board of Trade
130 Albert Street, Suite 910
Ottawa, Ontario, Canada K1P 5G4
(613) 236-3631
(613) 236-7498-Fax
Website address: www.greaterottawachamber.com

D. Federal Canadian Government Contacts in Canada

Department of Agriculture and Agri-food Canada
Sir John Carling Building
930 Carling Avenue
Ottawa, Ontario, Canada K1A 0C5
(613) 759-1000
Website address: www.agr.ca

Department of Foreign Affairs and International Trade
Lester B. Pearson Building
125 Sussex Drive
Ottawa, Ontario, Canada K1A 0G2
(613) 944-6788
(613) 944-4500-Fax
Website address: www.voyage.gc.ca

Industry Canada
235 Queen Street
Ottawa, Ontario, Canada K1A 0H5
(613) 954-2788
(613) 941-1000-Fax
Website address: www.ic.gc.ca

E. Canadian Commercial Banks

Following is the contact information for the “Big Six” Canadian Schedule I Banks.

Bank of Montreal
First Bank Tower
1 First Canadian Place
100 King Street West
Toronto, Ontario, Canada M5X 1A1
(416) 867-5000
Website address: www.bmo.com

Canadian Imperial
Bank of Commerce (CIBC)
Commerce Court
Toronto, Ontario, Canada M5L 1G9
(416) 980-2211
Website address: www.cibc.com

Toronto Dominion Bank
PO Box 1
Toronto Dominion Center
55 King Street West
Toronto, Ontario, Canada M5K 1A2
(416) 982-8222
Website address: www.tdbank.ca

Bank of Nova Scotia
Scotia Plaza
44 King Street West
Toronto, Ontario, Canada M5H 1H1
(416) 866-6161
Website address: www.sccotiabank.ca

Royal Bank of Canada
200 Bay Street
Royal Bank Plaza
Toronto, Ontario, Canada M5J 2J5
(416) 974-5151
Website address: www.royalbank.com

National Bank of Canada
50 O'Connor Street-Suite 205
Ottawa, Ontario, Canada K1P 6L2
(613) 238-8365
Website address: www.nbc.ca

F. US Commercial Banks in Canada

Bank One Canada
(Formerly First Chicago NBD Bank)
161 Bay Street, Suite 4240
BCE Place, PO Box 613
Toronto, Ontario, Canada M5J 2S1
(416) 365-5254
(416) 365-7574-Fax

Bank of America Canada
200 Front Street West, Suite 2500
Toronto, Ontario, Canada M5V 3L2
(416) 349-4100
(416) 349-4285-Fax
Website address: www.bankamerica.com

The Chase Manhattan Bank of Canada & JP Morgan
Royal Bank Plaza South Tower
200 Bay Street-Suite 1800
PO Box 80
Toronto, Ontario, Canada M5J 2J2
(416) 216-4100
Website address: www.chase.com

Morgan Bank of Canada
Royal Bank Plaza South Tower
Suite 1800
PO Box 80
Toronto, Ontario, Canada M5J 2J2
(416) 981-9200

Appendix II

Canadian Labor Fact sheet

This appendix contains an example of the recommended fact sheet and mailing piece for Canadian companies. It is designed as a short newsletter/information piece, accompanied by a cover letter. It can be used with virtually any Canadian industry.

Dear: Canadian Company/economic Development Agency,

Our research indicates that many Canadian companies may have increasing difficulty finding the skilled labor they need in the future. At the same time, we expect substantial business opportunities for those Canadian companies who can find affordable labor supplies. We may have some ideas that can help and we would like to discuss possible partnerships.

Northern New York is a quiet rural area of the US, with a consistent labor surplus and a very positive attitude toward international partnerships. We are located on Canada's southern border, within easy truck or train travel to plants and markets in Ontario and Quebec. We have a variety of training programs that let us train our workers in skills that are in demand, and we can help match the right workers to the right jobs.

This letter isn't the usual thinly veiled economic development pitch, trying to lure Canadian companies to relocate to our community. Instead, we are making an honest offer of partnership. Is there some way that we can work together to create economic benefits on both sides of the border? We have labor, easy access to major Canadian and US markets, the ability to marshal public and private capital for the right ideas, and an *entré* into US markets for things like transportation and construction. What we need are companies with strong entrepreneurial skills, key technical or business talent, and a desire to grow through innovative partnership ideas.

If you are interested in learning more, or just brainstorming about how a US partnership could help your firm, please give us a call. We want to hear about your needs and interests and see if we can't do something together.

Please give us a call or e-mail us if you have any questions. I look forward to hearing from you soon.

Sincerely,

JCJDC or Empire State Development Contact Point

A Canadian Challenge

The Coming Labor Shortage

According to data prepared by Statistics Canada, the Canadian economy will be facing a severe labor shortage within the next 5 to 15 years. At the same time, Canadian household spending will continue to rise, spurring demand for the very goods and services that Canadian firms can't find the labor to produce. A shrinking labor pool will mean rising wages and labor costs, hurting the competitiveness of Canadian companies on the global market.

Of course, there are many things Canadian businesses can do to offset the shortage of labor. By paying higher wages, they can lure older workers back into the work force and increase the labor supply. By lowering standards for skills or productivity, they can hire marginally employable workers, who are unemployed now. By making major investments in capital technology, they can automate and reduce the need for individual workers in some categories. By moving the most labor-intensive operations off shore, they can avoid the problem altogether.

Each of these approaches has drawbacks and none may be right for every company. Every company, however, is going to have to deal with the issue sooner or later.

For companies located in Ontario and Quebec, there is another possibility. Northern New York is a largely rural region of the US, where unemployment is high and there are labor surpluses forecast for the foreseeable future. The businesses, governments, and communities of Northern New York are interested in exploring partnership possibilities with Canadian businesses.

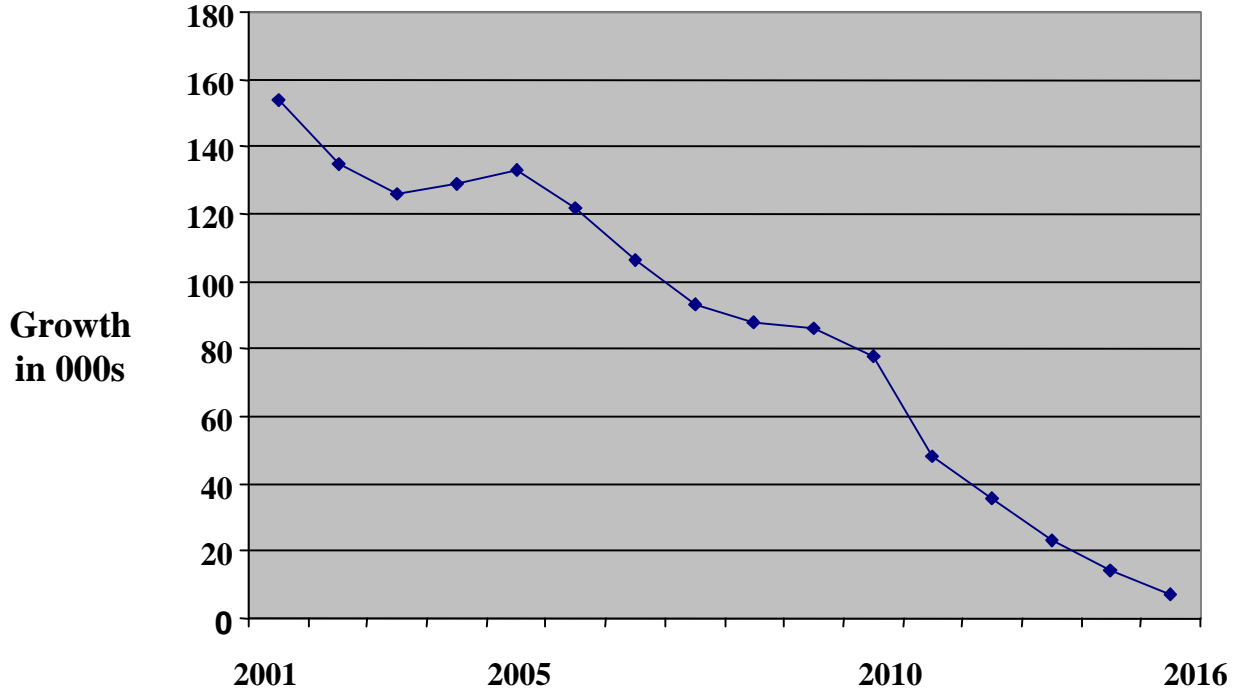
A Shrinking (and Aging) Work Force

In 1960, the Canadian birth rate was 3.94 children per woman. By 1977 it had dropped to only 1.55 children per woman and the rate is expected to continue to decline to 1.32 by 2016. That means that the natural population increases (deaths – births) in Canada will be less than 125,000 annually over the next five years. By 2016, the country will have reached near Zero Population Growth (ZPG).

This same demographic effect will cause the population to age, as life spans increase while birth rates drop. An older population will mean fewer people of working age, fewer workers willing to relocate or retrain to new jobs, higher wages, and rising healthcare costs. There will be fewer workers for Canadian businesses, and those workers will be more expensive and more difficult to attract to new industries and plant locations.

Across Canada, the rate of labor growth is forecast to drop from 153,600 in 2001 to only 7200 by 2016. The smallest growth will occur in workers between 15 and 24, whose numbers will grow very slowly through 2011 and then actually drop steadily through 2016.

Canadian Labor Growth Projections 2001 – 2016



Source: *Countdown: Future Shortages in the Canadian Labour Market, 2000*, People Patterns Consulting Inc.

What About Immigration?

It's not likely to help much. These estimates already include an annual average of 150,000 net immigrations. The highest the country ever experienced previously is only about 175,000 net annual immigrations in the middle 1990s. If immigration is to produce any significant effects on the labor shortfall, Canada will need to attract over 400,000 immigrants annually between 2001 – 2009, jumping to almost 600,000 between 2010 and 2016. It could happen, but the social and political consequences will be significant.

Other factors could alleviate some of the problem. Labor participation could rise, the birth rate could spike up substantially in the very near future, or overall labor productivity could rise dramatically. A severe recession could reduce the demand for labor, offsetting the projected shortage. None of these are likely, however, so Canadian companies need to start planning today.

Supply Shrinks – But Demand Grows

Between 2001 and 2016, the supply of labor is expected to lag behind demand. At the same time, consumer demand is forecast to rise. As the population ages and the labor shortage worsens, incomes are expected to rise, along with household spending. Canadian companies may find themselves scrambling for workers at the same time their customers are demanding more products than ever.

Using data from the Statistics Canada Family Expenditure Survey, People Patterns Consulting Inc, a demographic consulting firm, forecasts increased spending in virtually every consumer category except those concerned with small children. Overall household spending is expected to increase 6.5% by 2006, 5.2% between 2006 and 2011, and another 3.2% between 2001 and 2016 (All in constant 1996 dollars). The strongest areas of growth will likely include healthcare, food, and books/reading materials. Clothing, transportation, shelter, and home care/maintenance are all expected to increase as well. In fact, the only declining categories are children’s clothes, baby care items, and day care services. Items popular with older folks are likely to be hot sellers in the years to come.

Top 10 Fastest Projected Growth in Spending % Change 1996 to 2016

| | |
|--|------|
| Prescription and fitting of dentures | 51.7 |
| Expenses on owned vacation homes | 50.7 |
| Clothing storage | 43.7 |
| Complete re-roofing | 42.5 |
| Horticultural services and snow removal services | 41.1 |
| Donations to charitable organizations | 40.9 |
| Golfing memberships | 40.3 |
| Gifts and money contributions to outside persons | 36.9 |
| Medicinal and pharmaceutical products | 36.8 |
| Motels | 36.4 |

People Patterns Consulting, Inc., 1999, Alberta, Canada

This means that many Canadian companies will see demand for their products rise sharply over the next 15 years. If they can’t find affordable labor sources to produce these products, Canadian shoppers are likely to turn to imports to meet their needs.

The Canadian economy, it seems, is going to have to import labor or products, to meet the needs of the next 15 years.

Northern New York Labor, Training, and Market Access

Northern New York is a quiet rural area of the US. Located on Canada's southern border, the region is equidistant between major Canadian markets and industrial zones and their counterparts in the US. Watertown, the region's major population center, is 4 hours drive from Toronto or Ottawa, and only 6 hours from Boston or New York City.

Over the past 20 years, Northern New York counties have experienced a steady labor surplus. Even in the booming period of the late 1990s and 2000, when both the US and Canada were at record levels of employment, we averaged unemployment rates almost twice the national average. Not only do we have available labor today, but we expect a strong supply for the foreseeable future.

The Army Connection

Jefferson County, New York is home to the US Army's 10th Mountain Division at Ft Drum. 10,000 soldiers are stationed at the fort, along with another 10,000 family members and civilian workers. These soldiers and their families constitute a highly skilled local work force that is constantly renewed as new soldiers are assigned to the fort. The spouses of these soldiers have strong skills in computers, management, and other areas. Over 200 soldiers from Ft Drum leave the Army each month, with 17% staying in the local area. They have unusually strong skills in areas such as mechanical maintenance, construction, and general supervision and management.

Our work force already has the kind of skills needed by a variety of Canadian companies. In a recent survey conducted by Alliance of Manufacturers and Exporters Canada, respondents from many major Canadian companies identified key skill areas, which they were having trouble recruiting for. The table below shows a listing of many of the hard to find skills, compared to the distribution of such skills among the adult population of Jefferson County, New York.

A 2001 survey of the work force in Jefferson County showed a labor pool strong in traditional skills in manufacturing, construction, agriculture, and skilled craftwork. The work force in the region has also embraced "new economy" skills, with 67% of the adult population literate in common computer applications, including the Internet. 30% reported some abilities in at least one foreign language. 36% of the separating soldiers from Ft. Drum had language skills beyond English, as did 41% of their spouses.

A complete report on local skills in all areas is available from the Jefferson County Job Development Corporation. Check the website at JCJDC.com

Skills Demand/Supply Comparison Canadian Manufacturers – NNY Workers

| Skill | % Canadian Companies Seeking | % Jefferson County Population | % Ft Drum Spouses | % Separating Soldiers |
|--------------------------|------------------------------|-------------------------------|-------------------|-----------------------|
| Manufacturing Management | 51% | 14% | 38% | 49% |
| Machining | 35% | 15% | 15% | 32% |
| Information Technology | 29% | 17% | 20% | 26% |
| Software Programming | 26% | 12% | 20% | 25% |
| Welding | 18% | 13% | 6% | 21% |

Appendix III

Interview Results Summary

The CCS team contacted 38 companies, which had located in the North Country Alliance region since the beginning of the NAFTA treaty. The goal was to determine what factors had caused them to choose their location in the region, in an effort to spot replicable trends.

Manufacturers

Overall, 102 manufacturers were identified in the study, but the majority of these were sole proprietorships or small family businesses whose manufacturing activities consisted of artisan craft works, printing, or repairs/modifications to boats, computers, or other consumer products.

The original proposal called for interviewing all companies with over 25 employees. Because there were only 15 manufacturers that large, with 1 no longer in business (Deferiet Paper Company LLC – the largest employer on the list), and 6 declining to participate in the survey, the CCS team elected to interview some businesses with fewer employees. NOTE: several manufacturers identified on the original list proved to be companies which had been at their present location for many years, but had experienced a name or ownership change during the study period. These were not treated as “new” companies and no interviews were conducted.

Bombardier Mass Transit, Inc.

Primary Products/Business activities: Rail car manufacturing and final assembly

Established: 1995

Total Employment on Site: 100

Location: Plattsburgh, Clinton County

Contact: Elaine Reynolds

Bombardier is a wholly owned US subsidiary of Bombardier Inc of Montreal Canada. The company was formed to allow Bombardier to compete for US rail car contracts, under the Buy American Act. Specifically, the company was interested in competing for contracts to build subway trains and cars for the New York City Transit Authority.

The primary attractions for the location were:

- Need for a US/NY location.
- Proximity to the headquarters in Montreal.
- Available labor force, released by the closing of Plattsburgh AFB.
- Available facilities, released by the closing of Plattsburgh AFB.
- Intensive economic development efforts on the part of New York State and Clinton County.

Bombardier reports that they have since had difficulty in attracting the skilled labor they need. A cold climate and a lack of cultural amenities were also cited as drawbacks to the location. They report that they made the right choice and would locate in Plattsburgh again, if they had the choice.

Temoinsa Corporation

Primary Products/Business activities: Rail car subassembly/component manufacturing

Established: 1998

Total Employment on Site: 30

Location: Plattsburgh, Clinton County

Contact: Alain Sayegh

Temoinsa is actually the subsidiary of a Spanish company whose primary North American manufacturing presence is in Montreal, Canada. The company opened its New York location to take advantage of the free trade zone in Plattsburgh, as well as to maintain close relationships with Bombardier – a major Canadian and US customer. Temoinsa’s US location allows them to supply Bombardier and other US-based rail car manufacturers under the Buy American Act.

Nabson, Inc.

Primary Products/Business activities: Radiators and air conditioning parts – tubing fabricators

Established: 1995

Total Employment on Site: 38

Location: Plattsburgh, Clinton County

Contact: Ewan Abbott

Nabson moved to Plattsburgh from Ohio, to take advantage of the proximity of Montreal as well as the establishment of Bombardier. The two founders of the company are both former Montreal residents who wanted to be located closer to their former home. The primary attractions for the location choice were:

- Availability of facilities at Plattsburgh AFB.
- Availability of a skilled labor supply.
- Access to Canadian (Montreal) markets and Bombardier.
- NYS STRAP and other development/training programs for employees.

Nabson has some concerns with utility costs and difficulty attracting employees with specific skills, but is generally very pleased with their location choice.

RailTech Composites, Inc.

Primary Products/Business activities: Steel/composite paneling for buildings and railcars

Established: 1997

Total Employment on Site: 20

Location: Plattsburgh, John Natale

RailTech is headquartered in Montreal, Canada. The US location was selected to serve both Bombardier and the US construction industry. The company recently provided decorative exterior paneling to the Trump Towers in NYC. The primary benefits to their Plattsburgh location were:

- Proximity to their Montreal headquarters/primary manufacturing location.
- Ease of shipping between Montreal and NYC.
- Available facilities.

Hydra-Fab USA, Inc.

Primary Products/Business activities: Hydraulic systems for rail cars

Established: 1998

Total Employment on Site: 8

Location: Plattsburgh, Clinton County

Contact: Jean DesJardins

Hydra-Fab USA is a US subsidiary of a Canadian manufacturer supplying the rail industry. They chose their current Plattsburgh location to allow them to serve the US market under the Buy American act, including Bombardier. They were pleased with the ready availability of low-cost facilities, but are concerned about the relatively high costs of health care benefits and transportation to/from the area.

Rapa Independent North America, Inc.

Primary Products/Business activities: Sausage casings

Established: 1999

Total Employment on Site: 6

Location: Plattsburgh, Clinton County

Contact: Manil Whig

Rapa produces and distributes natural sausage casings to the meat packing industry. Their largest markets are in Canada and the Plattsburgh location allows them easy access and the facilities were very affordable. Their primary concerns are the cost of transportation, due to a lack of backhaul, and a shortage of skilled workers. They are exploring Worker Visa options to import certain skilled workers from Canada.

LCO Destiny LLC (Timeless Frames)

Primary Products/Business activities: Wooden picture frames

Established: 1999

Total Employment on Site: 25

Location: Watertown, Jefferson County

Contact: Lisa Allensworth

LCO bought out a defunct frame business at their current location. The primary attraction was the existing facility and equipment.

Massena Metals, Inc.

Primary Products/Business activities: Aluminum Castings from scrap

Established: 1995

Total Employment on Site: 15

Location: Massena, St. Lawrence County

Contact: J. Goldstein

Massena Metals buys aluminum scrap and recasts into products or raw aluminum ingots for resale. Their corporate headquarters is in Canada, as are many of their customers. The primary benefits to their current location were reported as:

- Shipping access to move materials in and out.
- Presence of major aluminum plants.
- Availability of labor.

Their primary location concerns were the cost of energy and taxes.

Tupper Lake Hardwood, Inc.

Primary Products/Business activities: Milled lumber

Established: 1994

Total Employment on Site: 32

Location: Tupper Lake, Franklin County

Contact: Edward Paneaudeau

Tupper Lake sawmill chose their current location close to the Adirondacks for its excellent supply of logs. They are also pleased with the low cost of Mohawk electricity and the low interest rates available for economic development. The low population in the area causes some shortages of skilled labor.

Champlain Plastics, Inc.

Primary Products/Business activities: Plastic bottles

Established: 1999

Total Employment on Site: 60

Location: Rouses Point, Clinton County

Contact: Alissa Benware

Champlain is a subsidiary of a Canadian Button Ltd, an Ontario, Canada company. They produce molded plastic bottles for the US market. The location was chosen for its proximity to the Canadian headquarters, as the company tried to increase US sales. their biggest challenge has been to find skilled and willing workers. The low local population makes finding specific skills very difficult and the company has experienced a high turnover rate. The company had been assured by local economic development agencies that they would have no problem finding suitable workers, but this has not been the case. They would not chose this location again, if they had a choice.

Weber International Packaging Co., LLC (Duopac Plastics)

Primary Products/Business activities: Plastic Bottles

Established: 1998

Total Employment on Site: 43

Location: Plattsburgh, Clinton County

Contact: Judy ?

Weber is a US company manufacturing molded plastic containers. They were established by the current owners in 1995, but some ownership changes occurred in 1998. The company is seeking more Canadian sales and chose the current location for its easy access to Canadian markets.

Since beginning operations, the company has experienced several drawbacks:

- Lack of skilled and motivated workers, especially mechanics and operators. They are concerned about the work ethic in the area as well as the available skills.
- High costs of transportation, due to a lack of adequate backhaul.
- Tax cuts that were promised as part of the initial economic development package but have never materialized.

The company reports that it would not chose this location again, if it had the choice.

Republic Blues

Primary Products/Business activities: Sports clothing
 Established: 1995
 Total Employment on Site: 80
 Location: Champlain, Clinton County
 Contact: Stanley Kohen

This company declined to participate in the survey from their US location. According to a representative from their corporate headquarters in Montreal, the US “plant” was actually a warehouse and shipping point. It gave them access to the US postal system for product delivery to individual customers. They do no manufacturing in the US.

The following companies with more than 25 employees were contacted, but declined to participate in the study:

| | |
|--------------------------------------|---------------|
| Salerno Plastics, Plattsburgh | 130 employees |
| Pactiv Corporation, Plattsburgh | 140 employees |
| Gildan Activewear Malone Inc, Malone | 70 employees |
| Eastern Die Casting, Champlain | 65 employees |
| Valco Furniture, Malone | 58 employees |
| Integral Fabrication Corp. | 43 employees |

The following companies with less than 25 employees were contacted but declined to participate in the study:

- Kree Technologies, Plattsburgh
- Wood Products Inc, Au Sable Forks
- Heritage Cheese House, Heuvelton
- CZL Manufacturing, Watertown
- Industrial Rainwear, Moira

Non-Manufacturers

There were a total of 2013 businesses other than manufacturing identified, with 63 of these having 25 or more employees. The largest non-manufacturing employers were:

- General retailers (including grocery stores) 8
- Hotel/restaurant 16
- Not-for profits (including military units, State trooper barracks, and fire departments) 8
- Health care facilities (including doctor’s offices and local clinics) 8
- Construction/Transportation services serving strictly local markets 13

None of these was considered replicable/relevant in an economic development sense and was not

interviewed. Special emphasis was placed on interviewing high-technology/computer businesses, regardless of their size. NOTE: many of the non-manufacturing businesses proved to be resales or renamings of existing businesses, including the purchase of WWTI 50 TV by the Smith Broadcasting Group and the purchase of WICY AM by Cartier Communications. These were dropped from the interview list. GiSCO (as an independent company) and Lighthouse Commercial Design are no longer in operation.

Long Park Tire, Inc.

Primary Products/Business activities: Retreading of commercial tires

Established: 1995

Total Employment on Site: 31

Location: Watertown, Jefferson County

Contact: Neil Parks

This is actually a repurchase of an existing business, but the previous owners had allowed the business to close for a short time. The business enjoys plenty of skilled labor and a location near a major truck stop that brings in some clientele. The greatest problems reported were the cost associated with shipping tires to customers in cities in central New York, where Long Tire does most of its business.

Adirondack Farms

Primary Products/Business activities: Dairy Farming

Established: 1996

Total Employment on Site: 26

Location: Peru, Clinton County

Contact: John Rolfs

This dairy farm was started in its current location, based on available land. A large parcel became available at an affordable price. The company would like to expand but cannot find more land at suitable prices in the area. Consolidated Animal Feeding Operations (CAFO) regulations require 2.5 acres of land for each cow milked. The farm received no economic development incentives.

North Country Savings

Primary Products/Business activities: Banking/Financial services

Established: 1995

Total Employment on Site: 40

Location: Canton, St. Lawrence County

Contact: David Swanson

This bank was formed by a merger of two smaller banks in the area. The locations currently used are those selected from among the previous properties held by each partner. The primary advantages to these locations include proximity to the County seat, as well as business/university population centers.

1000 Lakes Hydroterra Technology

Primary Products/Business activities: Water/sewer line design and construction
Established: 1999
Total Employment on Site: 28
Location: Canton, St. Lawrence County
Contact: John Putman

The company was founded in its current location because its owner is from the area and wished to live there. They receive sizable contracts through the NYS DOT and they have a large supplier base in and around Black River valley region. Their only reported difficulty in their current location is the time needed to obtain work permits from state and local governments.

Wooden Boat Specialties

Primary Products/Business activities: Refurbish/restore wooden boats
Established: 1997
Total Employment on Site: 10
Location: Fisher’s Landing, Jefferson County
Contact: Sam Rivoli

The current location was chosen because the principals live in the region and felt the popularity of boating locally would generate substantial business. They have no significant Canadian business. their only concerns are the high cost of health insurance, taxes, energy, and some difficulty in finding skilled labor.

The following companies with more than 25 employees were contacted, but declined to participate in the study:

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|--|--------------|
| Northland Hides Processing, Ellenburgh | 30 employees |
| Biltwell Packaging, Plattsburgh | 30 employees |

Computer Hardware/Software

There were 38 companies identified as being in the computer services or software business. 21 of these were sole proprietorships, and another 8 of these had 2 - 3 employees. Of those 9 companies with 4 or more employees, 2 are no longer in business and 6 declined to participate or indicated that they no longer employ more than 3 employees. Only one agreed to participate in the survey.

Build me a Computer, Inc.

Primary Products/Business activities: Customized desktop computer systems

Established: 1999

Total Employment on Site: 7

Location: Calcium, Jefferson County

Contact: Tim Hoistion

This is actually a retail computer operation catering primarily to Ft Drum. The location was chosen because the principle lives here. They are primarily concerned by the cost of transportation and the lack of skilled labor in the area.

Conclusions

The actual level of economic development in the region since NAFTA began in 1994 has been very low. Most outside investment appears to have been in the form of purchases of existing companies, rather than founding new ones. The primary problems experienced by companies in the region include; high taxes and energy costs, high transportation costs caused by both high fuel costs and the premiums charged by shippers to offset the lack of backhaul traffic, and a severe shortage of skilled labor. The region appears to have enough workers overall, but their skill levels are low and it is difficult to locate a sizable supply of any given skill. The role of economic development activities, beyond the Plattsburgh area, is problematic.

The Canadian market is important to businesses in the region and many Canadian companies are interested in opening facilities in northern New York. The ability to circumvent the Buy American Act and sell to US rail companies and other affected industries appears to be a powerful motivator. NAFTA does not appear to have had a significant impact on Canadian or US investment in the region.

There has been significant activity among very small companies and sole proprietors. This may be an area where additional economic development focus is warranted.