

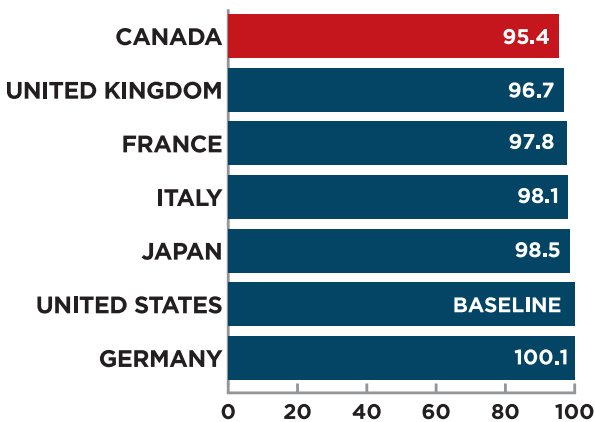
CANADA'S COST AND TAX ADVANTAGES – PHARMACEUTICALS

Canada offers a dynamic and innovative environment for pharmaceutical companies, with Canadian pharmaceutical product manufacturers employing 27,000 people in 490 establishments in 2013. One of the keys to Canada's success in the pharmaceutical industry is a competitive environment for business costs and business taxes.

In its 2014 study of global business locations, *Competitive Alternatives*¹, KPMG found that Canada offers the lowest business cost structure and the lowest business tax burden among the G-7 countries for pharmaceutical products firms. Details of these findings are presented below, reflecting business costs and taxes for an independent prescription drug manufacturer.



PHARMACEUTICAL PRODUCTION COST INDEX, G-7 RESULTS (U.S. = 100.0)



CANADA'S COST HIGHLIGHTS

- Pharmaceutical manufacturing operations located in Canada enjoy a 12.0 percent saving on total labour costs relative to their U.S. counterparts, with lower employee healthcare costs being a major contributor to the savings.
- For leasing of industrial facilities, costs in Canada are very affordable—36 percent lower than the G-7 average for this prescription drug manufacturer.
- Low utility costs add to Canada's cost advantage. For this firm, Canada's industrial electricity costs rank as the second lowest in the G-7, while natural gas costs are more than 50 percent lower than in five of the G-7 countries.
- Taxes represent the final component of Canada's cost advantage, as detailed on the next page.
- When all cost factors are combined, Canada has the lowest business cost structure among all G-7 countries, with total business costs 4.6 percent below the U.S.

IMPACT OF EXCHANGE RATES

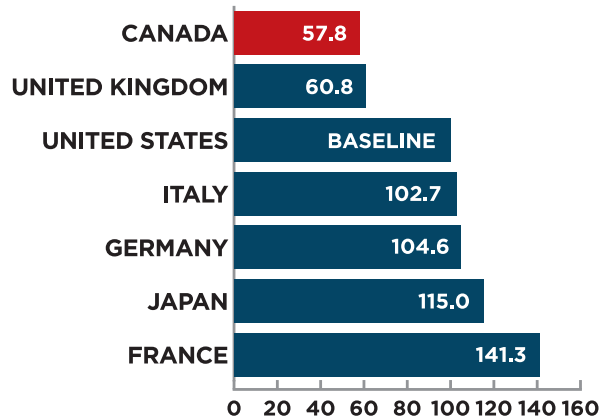
The 2014 edition of *Competitive Alternatives* was released in March 2014. The results from that study, including the results reported here, reflect exchange rates that were in effect in the fourth quarter of 2013. These results are sensitive to exchange rate changes.

During 2014, the U.S. dollar appreciated in value relative to most global currencies, including the Canadian dollar. For the model pharmaceutical firm, Canada's cost advantage relative to the United States **increases from 4.6 percent to 7.6 percent** at January 2015 exchange rates. The stronger U.S. dollar significantly increases Canada's cost advantage for international pharmaceutical firms.

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



PHARMACEUTICAL PRODUCTION TOTAL TAX INDEX³, G-7 RESULTS (U.S. = 100.)



LOW-COST HOT SPOTS

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

A	Moncton	93.7
B	Charlottetown	93.7
C	Fredericton	94.1
D	Montréal	95.0
E	Winnipeg	95.3
F	Toronto	95.7
G	Saskatoon	95.8

CANADA'S TAX HIGHLIGHTS²

- While the pharmaceutical industry as a whole is highly research intensive, this manufacturing firm makes only modest investments in process-related R & D. Even so, Canada's R & D credits drop the effective rate of corporate income tax to 16.3 percent, the second lowest in the G-7.
- Canada's tax burden for statutory labour costs and other corporate taxes are also relatively low, ranking third among the G-7 countries in both of these tax categories.
- Overall, Canada's total tax index for the model drug manufacturer is 57.8 - the lowest among the G-7 countries and reflecting total tax costs 42.2 percent lower than in the United States.

SUMMARY OF OPERATING PARAMETERS

BUSINESS OPERATION: PHARMACEUTICAL PRODUCTION	
Facilities requirements	
Leased industrial site (20,234 m ²)	5 acres
Size of factory (6,503 m ²)	70,000 ft ²
Workforce	
Management	7
Sales and administration	16
Production/non-dedicated product development	
• Professional, technical	60
• Operators	22
• Unskilled labourers	15
Other	4
Total employees	124
Other initial investment requirements	
Machinery and equipment - U.S. \$'000	\$24,000
Office equipment - U.S. \$'000	\$200
R & D equipment - U.S. \$'000	\$500
Inventory - U.S. \$'000	\$10,000
Equity financing - % of project costs	50%
Energy requirements	
Electricity: monthly consumption	160,000 kWh
Gas: monthly consumption (20,538 m ³)	10,000 CCF
Other annual operating characteristics	
Sales at full production - U.S. \$'000	\$40,000
Materials and other direct costs - % of sales	27%
Other operating costs - % of sales	15%
Investment in tax-eligible R & D - % of sales	2.6%

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

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