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BUSINESS AND INVESTMENT BULLETIN

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Automakers' confidence in Ontario means a near-record year

Putting it all together: car and body assembly at the General Motors plant in Oshawa, Ontario

Driven by a well-earned reputation for consistent quality, productivity and innovation—and supported by a government committed to maintaining the province's first-class transportation infrastructure—Ontario's auto industry is headed for one of its best years yet.

"When you look at jobs and production, we seem to be weathering the storm," says Mark Nantais, President of the Canadian Vehicle Manufacturers' Association, pointing to near-record production numbers for 2002.

That's enough to maintain Ontario's ranking as the seventh largest producer of motor vehicles worldwide—one in six vehicles produced in North America rolls off Ontario assembly lines—and to encourage more investment by the province's automakers. This past year has seen commitments for substantial new investment—over \$2 billion in total—by General Motors (GM), Ford, Honda, Toyota and DaimlerChrysler.

The province's six car and two heavy truck manufacturers also continue to place important product lines at their Ontario facilities. GM, for instance, recently announced that its Oshawa No. 2 plant, which already produces the Buick Century and Buick Regal, will be the exclusive North American supplier of the company's next-generation Grand Prix. And Ford of Canada has announced it will begin full-scale production of a new engine that will power the next-generation of their most popular full-size pickup in an innovative, landmark, two-plant expansion in Ontario's auto heartland. DaimlerChrysler and Honda have made announcements about Ontario investments recently as well.

And in what industry watchers see as a significant vote of confidence in its Ontario operation, Toyota picked its Cambridge, Ontario facility to produce its Lexus RX 300, making it the first plant outside Japan to assemble a model for the company's Lexus luxury division.

Automakers' confidence in Ontario assembly plants is well founded. To start with, they're highly productive—and they continue to widen their productivity gap with their U.S. counterparts. According to a recent report from Scotiabank, productivity, as measured by days required to produce a vehicle, improved to 3.04 days in Ontario, compared with an average 3.27 days in U.S. plants. That gives Ontario plants a seven per cent productivity advantage, up from five per cent in 2001.

The most productive facilities in North America are clustered here

"The reality is across the board, if you look at GM, Ford and DaimlerChrysler's facilities,

Canada versus the U.S., for the most part, their Canadian facilities come out ahead,” says Carlos Gomes, senior economist with Scotiabank. The most productive facilities in North America are clustered in the Greater Toronto Area (GTA), with a 15 per cent advantage (more than double Ontario's overall productivity advantage) over facilities in the U.S. and a nearly 40 per cent edge over operations in Mexico.

When it comes to quality, again, Ontario facilities deliver, regularly capturing J.D. Power & Associates annual “Plant Quality Awards”. This year, for instance, three Ontario plants were among the top 10 in North America in the closely watched survey, with the gold award going to GM Canada's No. 2 car plant in Oshawa, Ontario. GM's Oshawa No. 1 plant and Toyota's Cambridge, Ontario plant—last year's gold winner—were the other Ontario facilities among the top 10.

A successful assembly industry depends on a dynamic parts industry and Ontario delivers that as well. There are some 500 companies engaged in parts development and manufacturing in the province, from giant multi-nationals like Ontario-based Magna International and Siemens to dynamic home-grown companies like the Woodbridge Group, Westcast and Linamar. And while 2002 has been a “challenging year” for the industry, it's still headed for record production according to Gerald Fedchun, President of the Auto Parts Manufacturers' Association. He attributes the sector's success to its ability to develop and manufacture innovative parts and get them to market quickly.

Ontario's parts industry continues to do well when it comes to attracting investment, Mr. Fedchun notes, pointing to companies such as Austrian-based Starlim-Sterner, German-based Keiper GmbH and Co., and Pennsylvania-based Magee Reiter Automotive Systems that are establishing major operations in the province.

And there was more good news for Ontario's auto industry in 2002. To help auto parts suppliers and assemblers continue to meet just-in-time deadlines, the Ontario government committed more than \$400 million to improve road safety and relieve congestion on Highway 401, a vital route for North America's auto industry. The government will also invest another \$150 million—the federal government is kicking in matching funds—to improve traffic flow at the Windsor, Ontario-Detroit, Michigan border crossing, the busiest in North America, and an essential one for Ontario's auto industry.

Finally, there is the newly formed Canadian Automotive Partnership Council that is working to identify and prioritize short and long-term actions to strengthen the sector's global competitiveness and create new opportunities for growth.

GM Oshawa earns its place as most productive in North America

GM Canada's Oshawa, Ontario assembly facility—the largest auto assembly complex in North America—is having a banner year. The Oshawa Car Assembly Plant No. 1 was chosen the most productive North American assembly operation in the 2002 Harbour Report. The No. 2 plant was awarded tops in quality in J.D. Power's 2002 annual survey and the Oshawa Truck Plant was ranked the highest quality full-size truck assembly facility in the same survey. And the good news for the Oshawa facility doesn't end there. The world's largest automaker has chosen Plant No. 2 to be the exclusive North American supplier of the new generation Pontiac Grand Prix. The company has also announced it will devote the majority of \$800 million in new capital spending to Oshawa, including a new product for the truck plant, a state-of-the-art paint shop for the car plants and the lead-developer role for the next generation Buick Regal. “Our

dedicated GM Autoplex employees have built a solid reputation for being the best in North America in terms of quality, productivity and safety,” says Tayce Wakefield, GM Canada’s Vice President, Corporate and Environmental Affairs. “We continue to earn new engineering and manufacturing mandates for Ontario.”

INSIDE

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- New high-tech fund bucks the trend
- Starlim-Sterner finds a perfect fit
- North America’s most productive auto plant

All dollar figures are reflected in Canadian currency unless otherwise denoted.

MM Venture Partners focus in Ontario for a new high-tech fund

With investments by venture capital firms in North America down, MM Venture Partners is bucking the trend. The Toronto, Ontario-based company has raised \$100 million—all from U.S. investors—for a new fund that will invest in Canadian high-tech companies in the enterprise software, network management, telecom, semi-conductor and bio-tech sectors. It’s the company’s third fund.

“We have a track record with our partners and our performance has been very good in these markets,” says MM founder Minhas Mohamed. He adds, “Contrary to popular belief, it’s a good time to form new companies because you are looking at new value propositions and lower costs to capitalize management teams.”

With more than 15 years experience in the venture capital field—all of it in the high-tech area—Mr. Mohamed knows what he’s talking about. After stints with a number of venture capital companies, he formed MM Venture Partners in 1998. To date, the company has invested over \$100 million in 33 high-tech companies—Innovance Networks, Vixs Systems Inc., March Networks and Executive Manufacturing Technologies to name just a few—only one of which it’s had to write off.

Unlike many venture capitalists that make pure equity investments, MM uses a venture debt model popular in Silicon Valley.

“We loan \$3 to \$5 million to companies looking to commercialize and market their technology and products,” says Mr. Mohamed. “Our upside comes from our warrants when a company is successful.”

This model gives MM a good return on its loans and the upside potential, at the same time, minimizing the company’s risk.

“Ontario continues to be our main focus of investment,” says Mr. Mohamed. “We’ve done well here and given the talent, expertise and entrepreneurial spirit in the province, we believe it will continue to have a robust high-tech sector.”

Starlim-Sterner’s location search finds Ontario a perfect fit

Starlim-Sterner’s 6,500m² facility in London, Ontario is scheduled to open July 2003.

When Austrian-based Starlim-Sterner GmbH was looking for a home for its North American production facility, it spent six months investigating possible sites in the U.S. and Canada. The world's leader in silicone injection moulding, used to produce parts for the auto industry among others, Starlim-Sterner needed a location that was close to its existing clients in the northeastern U.S., and that offered available high quality workers, competitive business costs and proximity to world-class research centres in order to continue to expand its process and engineering capabilities. London, Ontario, located in the heart of Ontario's auto industry, fit the company's requirements perfectly. Construction of the \$27 million, 6,500m² facility began in July 2002, with test production scheduled to begin in spring 2003 and full production by the fall of 2003. "This will be our North American centre of excellence," says Andreas Steiner-Starlim, North America's Chief Executive. "From here we will sell into America and South America as well." He adds, "In six years we will be as big as our operation in Austria and I think within 10 years we will outgrow that."

For more information about Ontario's Automotive industry, please call: 1 800 819-8701 or fill out the attached response card, or visit us at our website at www.2ontario.com.

Knoll Inc. finds success in Ontario

"Our goal is to create furnishings that set the standard, challenge convention and survive the test of time," says Knoll Regional Manager, Canada/Bermuda, Sonia Bitterman. And for more than 60 years Knoll has been doing just that thanks to a tradition that began back in 1938 with the company's founder, Hans Knoll.

The son of a pioneering German furniture manufacturer, Knoll did two things that were unusual in North American industry when he immigrated and opened his first shop in New York City. He and his wife, Florence, a space planner, worked closely with their customers to create solutions to meet their individual needs and they searched out and nurtured talented young designers, who they credited by name and paid royalties.

This practice not only provided the foundation for the agile, efficient and collaborative operating structure that characterizes Knoll today, it's also widely considered to have inspired today's approach to corporate interior design. Among the award-winning Canadian architects and designers with whom Knoll has formed lasting relationships—and who have created some of Knoll's most original designs—are Frank Gehry, Bruce Mau, Jonathan Crinion, Hani Rashid and Lise Anne Couture.

In the early 1990s, Knoll also acquired Ontario-based REFF Inc., a move that proved to be important to the company's current success. REFF was an innovative, highly respected office furniture company with considerable industrial design and marketing talent, as well as three state-of-the-art factories and a highly-skilled workforce. Joining forces with REFF vaulted Knoll into the top tier office furniture suppliers.

"Expanding our operation to Ontario has contributed significantly to our ability to leverage our position as world leaders in the industry," says Ms. Bitterman. "One of our most enduring hallmarks is our spirit of collaboration and we've felt that spirit here, within the business community and among its artists. Knoll has not only found success in Ontario, we have found a home."

Cognos takes one-third of global market share with software

designed by exceptional Ontario talent

General Electric is a client. So are BMW AG, Nokia, Johnson and Johnson and the London Fire and Emergency Planning Authority. In fact, Ottawa, Ontario-based Cognos Inc. has a customer list of more than 20,000 companies that includes more than 75 per cent of the Global 2000.

What does Cognos have that everyone wants? Business intelligence software that lets corporate and institutional users analyze everything from sales and financial data to customer profiles, product inventories and employee performance.

"Customers are going back to basics, running their businesses by the numbers, and our products make it easy for them," says CEO Ron Zambonini.

What sets Cognos apart from its competitors is the fact that the company's products are Internet-based and accessible to thousands of employees in hundreds of locations around the globe.

With approximately 33 per cent share of the market—and growing—Cognos is the firmly entrenched world leader in business intelligence software. The company has over 2,600 employees worldwide, sells its products in more than 135 countries and has estimated fiscal year 2003 sales of around \$864 million, up from \$785 million in fiscal year 2001. All this despite a drop-off in worldwide IT spending.

The future is looking very bright—with industry experts praising the company's products—and Cognos' R&D facility working overtime to create new ones.

"The secret to our success is our workforce," says Zambonini. "The vast majority of our R&D is done in Ontario for the simple reason that there's an exceptional talent pool here."

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FACTS & SURVEYS

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Canada's Still the G-7's Star for Economic Outlook

When it comes to economic growth, Canada is still the 2002 star of the G-7, according to a recently released study by the International Monetary Fund. The study predicts that Canada will lead the G-7 in economic growth in 2003, and cites strong consumer spending, reduction in inventory levels and a rebound in business investment as the reasons.

Auto Production Headed for a Near-Record Year

Canadian auto production is on pace to exceed 2001 levels, according to DesRosiers Automotive Consultants. Production is up 3.5 per cent for the first eight months of 2002 and DesRosiers predicts the industry will roll out 2.62 million vehicles by the end of 2002.

(Source: Financial Post)

Ontario Government Announces \$401 Million Investment in Highway 401

The Ontario government is investing \$401 million to upgrade Highway 401. One of the busiest highways in the world—it carries more than 400,000 vehicles a day through the Greater Toronto Area—the 401 is a vital route for industry, commuters and tourists. The upgrades will relieve congestion and improve safety.

(Source: CNW)

Ontario Steps Up Focus on Auto Sector

Jim Flaherty, Ontario's Minister of Enterprise, Opportunity and Innovation, recently released a new Automotive Action Plan, a follow up to an Automotive Roundtable that brought together government and auto industry representatives.

"The auto sector is one of the key drivers of the Ontario economy," says Flaherty. "Although the industry remains strong, global overcapacity has created a fiercely competitive environment, resulting in the expansion of major assembly plants outside Canada."

The new Automotive Action Plan—which aims to increase Ontario's competitiveness—focuses on promoting innovation within the industry, enhancing labour skills and improving infrastructure to improve the traffic flow to and across key border crossings.

"Our government recognizes the challenges facing the industry, and the need to work together to attract future investment and jobs," says Flaherty.

"This is a good first step towards ensuring that the auto sector continues to grow and prosper here in Ontario."

(Source: MEOI press release (June 19, 2002), Canadian Vehicle Manufacturers Association)

Canadian Car Sales Continue At Record Pace

Vehicle sales for 2003 in Canada are predicted to total more than 1.66 million units, overtaking the expected record of 1.65 million units this year and well ahead of 2001 sales. Carlos Gomes, Senior Economist for Scotiabank sites two factors fuelling the surge—financing deals by some manufacturers coupled with the strongest pace of job creation on record.

(Source: Financial Post)

Windsor-Detroit Border to Get \$300 Million to Speed Up Traffic Flow

With increased traffic at the Windsor, Ontario-Detroit, Michigan border causing delays, the Ontario government announced it will invest \$150 million—with the Canadian government providing matching funds—to relieve congestion. Windsor-Detroit is the busiest border crossing in North America, with 3.5 million trucks and \$160 billion in commercial trade flowing across it in 2001.

(Source: Toronto Star)

Canadian Factory Production is Surging Ahead

Another good indication of how well the Canadian economy is performing, Canadian factory production continues to surge ahead, outperforming U.S. production by a record margin. In fact, according to Alan Seychuck, an economist at Royal Bank of Canada, the Canada-U.S. gap is now the widest since Statistics Canada began recording the data in 1987.

(Source: Financial Post)

INVESTING IN ONTARIO

Essex, Windsor

Ford of Canada has announced its most ambitious engine plant expansion in recent history. Full-scale production of a new Triton V-8 engine at the Windsor, Ontario plant will pull together a massive, 3-year, \$770 million expansion program. These parts will be shipped to an all-new production line at the Essex (Ontario) Engine Plant for final assembly. The two-plant expansion represents 70,200 m² of new facilities. Windsor will be first to see innovative flexible manufacturing techniques that will then rollout to Ford's engine facilities throughout the world.

Windsor

DaimlerChrysler will invest an additional \$11 million in the University of Windsor/DaimlerChrysler Canada Automotive Research and Development Centre (ARDC). The investment will create additional infrastructure at the ARDC's Automotive Coatings Researching facility, already the most sophisticated coatings research lab in the world.

Sarnia

Imperial Oil has announced it will build a new \$120 million co-generation facility at its

Sarnia, Ontario refining and petrochemical complex. The facility—which will use about 50 per cent less energy than conventional methods—is currently underway. Start-up is planned for April 2004.

Ingersoll

GM and **Suzuki** will invest \$500 million in their Ingersoll, Ontario-based CAMI plant. The plant will build the new Chevrolet Equinox compact SUV.

Ottawa

The Ontario government will invest close to \$41 million in research and development at the **University of Ottawa**. The investment will enable the university to expand its research faculty and enhance its research facilities in fields such as human disease detection and treatment, information technology and environmental sciences.

Alcatel has announced that Ottawa, Ontario's **Carleton University** has been selected as the first Canadian university for the company's Research Partner Program, joining eight other prestigious academic institutions around the world. This global program is designed to foster innovation through strategic research partnerships. Earlier this year Alcatel opened its Ottawa Research & Innovation Centre to leverage the region's recognized leadership in telecommunications networking, Alcatel's core business.

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