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ANALYSIS OF FOREIGN-OWNED COMPANIES IN YORK REGION

The Planning and Economic Development Committee recommends the adoption of the recommendation contained in the following report dated September 4, 2012, from the Executive Director, Corporate and Strategic Planning.

1. RECOMMENDATION

It is recommended that Council receive this report for information.

2. PURPOSE

This report provides Committee with an analysis of foreign-owned companies and subsidiaries in York Region, which is used to develop business support programs and sets targets for investment attraction that support job creation in the Region.

3. BACKGROUND

Research on the Regional Economy supports business attraction and expansion program development

Ongoing research is undertaken by Economic Strategy staff on the Regional economy to identify and better understand opportunities for supporting business investment growth and attraction. In 2012, Economic Strategy staff researched over 300 business operations of foreign companies in York Region to determine the importance of foreign investment to the Regional economy, and determine where foreign investment was coming from.

The 300 companies represent some of the Region’s largest employers and an employment base of over 40,000 and therefore warranted investigation that might reveal characteristics of note for program development purposes.

The research identified local subsidiaries and divisional/branch operations of foreign-based companies as well as foreign-owned Canadian businesses with a corporate parent company headquartered outside of Canada. Employment data has been taken from York Region 2011 Employment Survey and Economic Strategy Branch sources. This work serves to provide direction for business support program development and improve and expand the employment database.

4. ANALYSIS AND OPTIONS

International business presence in York Region is a key driver in the number and quality of local jobs

Foreign-owned companies are an important part of the Regional economy, providing significant jobs and investment growth in the Region's key sectors.

Foreign-owned companies represent a significant share of total Regional employment

The major sample of over 300 foreign companies analyzed employ in excess of 40,300 people in the Region. The Economic Strategy Branch estimates that this would translate to one in 10 jobs in York Region are with foreign-owned companies over the total employment base. Five of the 10 largest private sector employers in York Region are subsidiaries or operations of foreign companies.

International businesses in York Region typically employ significantly more employees than the average. Fifty-five per cent (55%) of the foreign-owned companies operating in York Region are considered medium or large (over 20 employees) compared to only 16% within the general business community in York Region. Median employment of foreign businesses in York Region is 28 employees per business, significantly higher than the median employment for all businesses in York Region.

Foreign-owned companies are significant employers in the Region's knowledge based and services sectors

Driven by local presence of multinationals such as IBM, AMD, Flextronics, Huawei, Allstate; State Farm; UPS, AC Nielsen; Ceridian; Teva and Johnson & Johnson, the knowledge based sectors of Information and Communications Technology, Financial and Business Services and Life Sciences clusters jointly account for 65% of total foreign employment in York Region (see *Table 1 and Table 2)*

Table 1
Major foreign-owned employers in York Region by key sector clusters*

Sector	Company
Information & Communications Technology (ICT)	IBM, AMD Technologies, Flextronics Global Services; Toshiba; Huawei Technologies
Finance & Insurance	Allstate Insurance Head Office; American Express (AMEX) Canada; State Farm Insurance Head Office; HSBC Canada
Business Services & Supplies	Giesecke & Devrient Security Card Systems; UPS Canada; AC Nielsen; Ceridian Canada; Staples Business Depot
Consumer Products	Scholastic Canada; Toys-R-Us Head Office; Adidas Canada; Estée Lauder
Life Sciences	Johnson & Johnson; AB Sciex; Teva Canada; Cardinal Health Canada
Electronic & Electrical Products	Honeywell Automation; Philips Electronics; Johnson Controls
Energy & Environment	SunEdison-Flextronix; GE Digital Energy; Silicor Materials; WorleyParsons Nuclear Energy

* Based on 2011 Employment Survey data; represents a sample of major foreign employers in York Region and not listed in any particular order of significance

Information and Communications Technology (ICT) is the top industry cluster for international business presence in York Region in terms of both company counts and employment

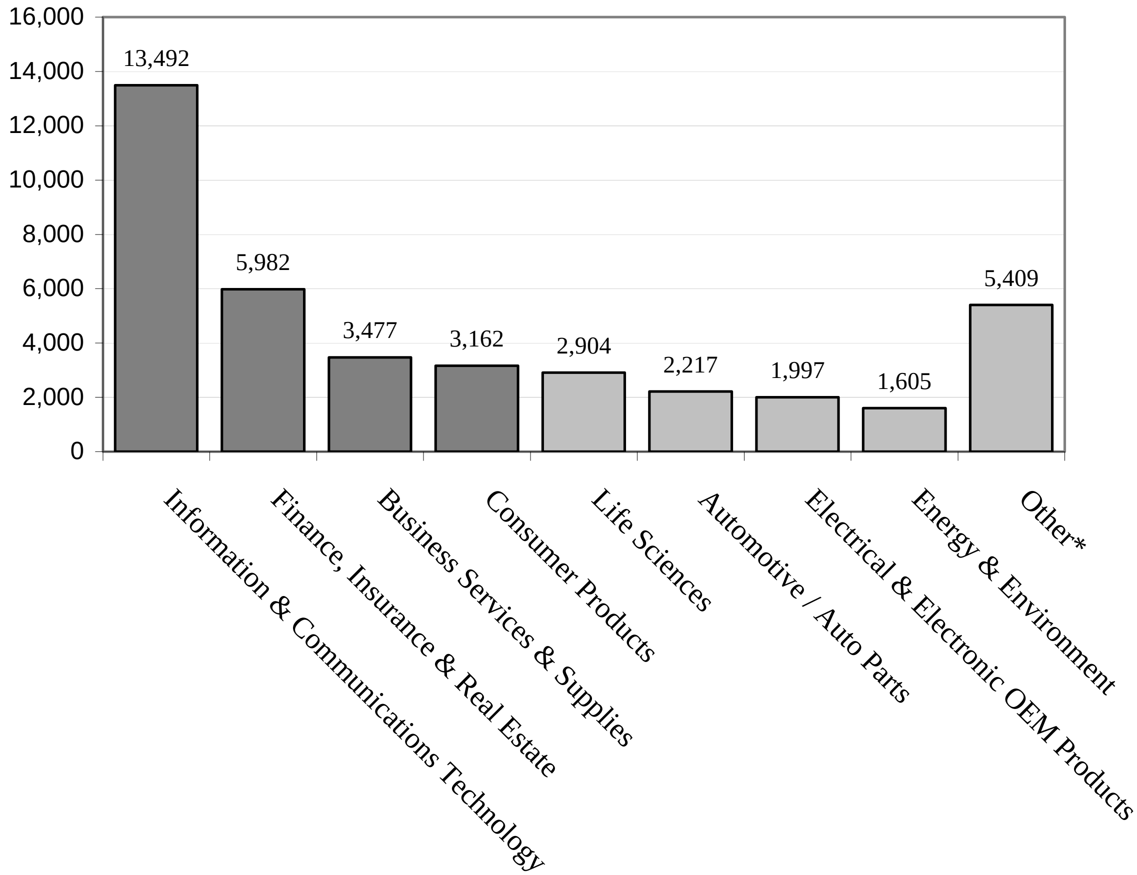
Table 2
Foreign-Owned Businesses by Industry Cluster (309 Researched Businesses)

Sector	Number	Share of Total
Information & Communications Technology (ICT)	49	16%
Consumer Products	41	13%
Life Sciences	31	10%
Electrical & Electronic OEM Products	24	8%
Machinery	22	7%
Energy & Environment	22	7%
Business Services & Supplies	21	7%
Building & Construction Products / Services	21	7%
Automotive / Auto Parts	16	5%
Finance, Insurance & Real Estate (F.I.R.E)	14	5%
Other*	48	15%

With its very large business presence in York Region, IBM Canada accounts for a significant share of local ICT employment. Analysis shows, however, that even when

IBM data is not included, ICT still remains a top cluster for local employment by foreign-owned businesses in York Region, alongside Finance and Insurance. (see *Figure 1*)

Figure 1
Employment of Foreign-Owned Businesses by Industry Cluster



* The 'other' category aggregates several other smaller industry clusters as well as services and goods not classified into primary clusters.

High-Tech and Financial/Business Services clusters continue to be the growth engine of Foreign Direct Investment by businesses in York Region

A number of global technology and Financial/Business Services companies publicly announced significant investments in York Region over the last two years alone to expand or establish local operations. Notable examples include:

- Information and Communications Technology (ICT): AMD fusion processors R&D, IBM Cloud Computing Centre / acquisition of Platform Computing, Hewlett-Packard (HP) Data Centre expansion, Huawei Technologies HQ and R&D expansion, Primus Telecom data centre
- Life Sciences: Teva Canada expansion, Alexion Pharma
- CleanTech: SunEdison/Flextronics, Sungrow Solar, Siemens-Ruggedcom acquisition, General Electric (GE) Grid IQ centre
- Financial and Business Services: Bank of China Canadian HQ, FedEx Distribution Centre

Collectively, these investments amount to hundreds of new jobs and roughly estimated at close to $1.5 billion of Foreign Direct Investment (FDI) in York Region in the last two years including foreign takeovers of local companies.

Key contributing factors in attracting new or expansion investments from foreign companies in York Region include GTA location and accessibility, industry clustering, workforce characteristics, real estate cost/availability, growth and quality of life. In some of the above noted cases foreign direct re-investments in York Region have been facilitated by Provincial and Federal financial incentives.

Conversely, in line with the declining share of traditional labour intensive manufacturing across Ontario, several foreign companies announced over the last few years they are closing their local manufacturing sites in the Region or consolidating work into low cost U.S. locations. These included Crown Metal Packaging, Snap-on Tools, Eastern Wire & Conduit and Steelcase furniture.

These conflicting trends reinforce the focus of York Region's Economic Strategy Branch, in partnership with Economic Development staff across the Region's local municipalities, on attracting new/expansion investments in knowledge based and services industry clusters where investment and job growth are focused and there is a strong alignment with York Region's evolving economy, location advantages and workforce quality.

Foreign-owned companies are concentrated in the southern three municipalities in the Region

Close to 90% of both business locations and employment of York Region based foreign-owned companies analysed in the research are concentrated in the Southern Three municipalities of Markham, Vaughan and Richmond Hill. (see *Table 4 and Table 5*)

Table 4
Location of Foreign-Owned Businesses in York Region by Municipality

Municipality	Share of Total
Markham	48%
Vaughan	25%
Richmond Hill	15%
Aurora	5%
Newmarket	5%
Whitchurch-Stouffville	1%
King	1%
East Gwillimbury	<1%
Georgina	-

Table 5
Employment by Foreign-Owned Businesses in York Region
(309 Researched Businesses)

Municipality	Total
Markham	26,079
Vaughan	7,522
Richmond Hill	2,808
Aurora	1,802
Newmarket	1,303
Whitchurch-Stouffville	531
King	250
East Gwillimbury	60
Georgina	-
Total	**40,355**

It is important to note that these companies draw their employees from across the Region. These companies are also very large consumers of products and services provided by businesses located in all nine municipalities and beyond. Therefore, the impact of these companies on the Regional economy extends beyond the municipalities they are located in.

The United States is the most important source of international business presence in York Region

The U.S. is the major source of international presence in York Region with about 60% of business locations and 75% of total employment of foreign companies in York Region (see *Figure 2 and Figure 3*).

Figure 2

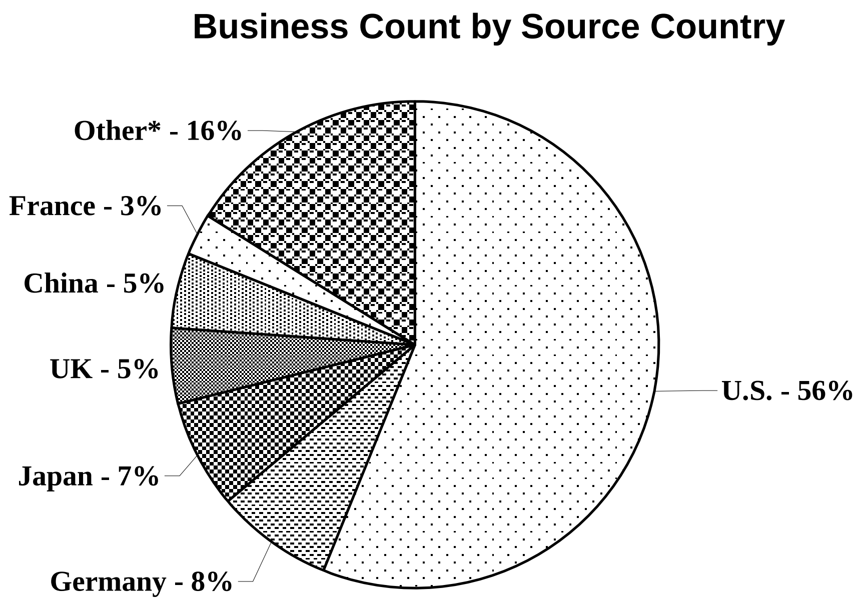
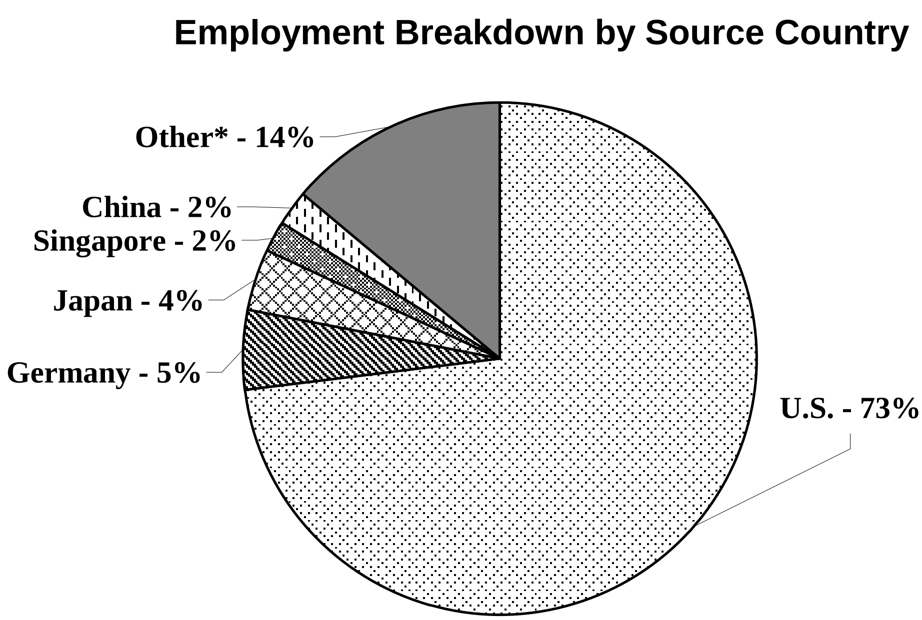


Figure 3



* The 'other' category includes over 15 other source countries each representing less than 2% of business counts or employment

As the charts outline, the U.S. is by far the most important single source of international business presence across York Region in terms of both the number of employers and employment levels.

The strong presence of U.S. companies in the Region is similar to several other Greater Toronto Area municipalities as well as consistent with Foreign Direct Investment (FDI) trends across Ontario where 2010 Financial Times data shows that the U.S. is the top source country with 52% of the total number of FDI projects, followed by Germany, UK and Japan.

These findings direct the focus of the Economic Strategy Branch international investment targeting, which focuses primarily on key or fast growing U.S. markets with strength in York Region's key sectors.

Geographic focus of the Regional investment attraction program is also designed to complement, rather than duplicate, international business development efforts of local municipalities in the Region that are targeting overseas markets such as China, India, Italy, Israel and Scandinavia, as per their local economic development strategies and business community characteristics. Economic Strategy staff provides professional support for activities in target markets outside the U.S. when requested by the local municipalities and where regional economics of scale and messaging enhances delivery or the value proposition.

While the growing economies of China and India are increasingly important international trade partners as well as key sources of individual investments in York Region (e.g. immigrant businesses and real estate investments), the research finds that these countries do not represent a significant source of foreign business employment in York Region.

Chinese or Indian headquartered companies with subsidiaries/branches in York Region currently account for less than 5% of total employment in York Region by foreign companies. These findings are in line with overall Foreign Direct Investment (FDI) trends in Ontario, with 2010 data showing that China and India each accounted for only 2% of the total number of FDI projects across the Province that year. Emerging economies will continue to be monitored for their inbound investment potential and programs developed as appropriate.

Foreign companies headquartered in the three U.S. States of California, New York and Illinois represent half of the total employment by foreign companies in York Region

Companies headquartered in the three U.S. States of California, New York and Illinois comprise 37% of U.S. companies operating locally and 20% of the total number of international businesses operating in York Region (see *Table 6*). In terms of employment, however, these States account for nearly 50% of total employment by foreign companies and 67% of U.S. employment in York Region, mainly due to the significant presence of such companies as IBM, AMD, American Express, Allstate Insurance and State Farm Insurance (see *Table 7*).

Table 6
US-Owned Businesses in York Region by Headquarters State

State	Share of Total
California	14%
New York	12%
Illinois	11%
Pennsylvania	6%
New Jersey	6%
Georgia	5%
Ohio	5%
Massachusetts	4%
Texas	3%
Others	34%

Table 7
Local Employment of US-Owned Businesses by Headquarters State

Country	Share of Total
New York	45%
Illinois	11%
California	11%
New Jersey	6%
Georgia	5%
Massachusetts	4%
Ohio	3%
Pennsylvania	3%
Others	12%

Link to Key Council-approved Plans

Foreign-owned companies contribute to job growth and investment which support the Economic Vitality Strategic Priority areas of the 2011-2015 Strategic Plan, particularly with respect to increasing employment opportunities and increasing the number of export/import businesses/industries in the Region in key growth employment sectors.

5. FINANCIAL IMPLICATIONS

The research and analysis work was undertaken using internal regional resources, the costs of which are incorporated in the approved Economic Strategy Branch budget.

6. LOCAL MUNICIPAL IMPACT

Foreign-owned companies are significant employers not only within their respective location communities but also of residents from all local municipalities within York Region and in some cases across the GTA. The companies represented in this research are also significant purchasers of products and services which provides economic benefit across the Region.

The information and analysis undertaken can be utilized by the local municipal economic development offices to develop programs in partnership with the Region for targeted investment attraction and business support.

7. CONCLUSION

International business presence in York Region is a key driver in the number and quality of local jobs. Foreign-owned companies represent a significant share of total Regional employment, and are significant employers in the Region's knowledge based sectors. Information and Communications Technology (ICT) is the top industry cluster for international business presence in York Region in terms of both company counts and employment.

The Hi-Tech and Financial/Business Services clusters continue to be the growth engine of Foreign Direct Investment by businesses in York Region, with investments amounting to hundreds of new jobs and estimated close to $1.5 billion over the past two years alone.

The United States is the most important source of international business presence, with companies headquartered in the three U.S. States of California, New York and Illinois representing half of the total employment by foreign companies in York Region.

The analysis of foreign-owned companies reinforces the importance of undertaking programs that focus on foreign investment attraction, particularly from the United States in the areas of ICT, Financial/Business Services and Life Sciences.

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The Senior Management Group has reviewed this report.