

BUDGET 2013-2014

INVESTING FOR OUR PROSPERITY

The government's
economic vision

*Finances
et Économie*

Québec 



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INTRODUCTION

The new government is presenting Budget 2013-2014 in the fall of 2012.

The government is thus immediately launching the initiatives to enable Québec's prosperity:

- by restoring order to public finances;
- by taking measures to accelerate economic growth for the benefit of all Quebecers.

The government is presenting the vision that will guide its action on the economic front. This vision is based on the conviction that we **must invest in order to ensure our prosperity**.

Private investment¹ is the key to future growth. By increasing the productivity of workers and strengthening the competitiveness of businesses, private investment will lead to a higher standard of living for the population.

In order to encourage private investment, this vision is accompanied by:

- the announcement of the first concrete measures implemented under the budget;
- the identification of the principal initiatives that will be launched over the coming months.

■ A stimulating business climate for investment

The government's economic vision requires that Québec provide a stimulating business climate that is conducive to projects creating wealth and jobs and that guarantees to entrepreneurs predictable government action, free of any surprises.

This is precisely one of the goals of Budget 2013-2014: in the budget, the government is clearly announcing the policy directions it will put forward over the coming months in the economic sector. All of these policy directions are aimed primarily at promoting the development of private investment, the implementation in Québec of projects that will generate value-added and various initiatives thanks to which Quebecers will enjoy greater prosperity.

The economic philosophy thus defined is therefore clear, and the government will not deviate from it.

¹ In this document, investments classified in the statistical category of "non-residential business investments" are considered to be private investments.

■ The demand for integrity

Here it is important to emphasize the demand for integrity, which affects the full range of government actions.

Support for economic growth is achieved by a government that makes integrity its number one priority. This demand for integrity applies to the government's economic vision, just as it does to the full range of the Québec government's actions.

- The fight against corruption and collusion is the basis of an economy that is healthy, transparent and attractive for investors.
- A business climate that is conducive to investment and the creation of wealth is founded above all on irreproachable political practices, strict rules to fight corruption and procedures for awarding public contracts that are clear and rigorous.

The government has already taken the first steps to clean up the situation in the sectors where emergency measures were required. The new rules will apply to everyone fairly.

In a context highlighting the demand for integrity, the government is therefore clearly defining the priorities it has chosen and the initiatives it is launching to make Quebecers more prosperous.

1. PRIVATE INVESTMENT, THE KEY TO FUTURE GROWTH

A major focus in recent years has been on public investment. The effort thus made by Québec taxpayers has reached a peak. This effort will have a positive impact on future economic growth due to the effect of public investment on the business environment.

The priority must now be placed directly on private investment, where there is still a long way to go.

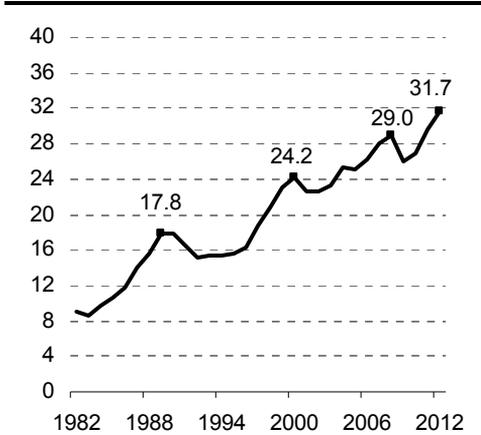
Québec benefited from a strong upturn in private investment in 2010 and 2011. This growth continued in 2012 and should continue into the coming years. On the other hand, Québec has not achieved its full potential in this area.

- Although private investment in Québec exceeded pre-recession levels, its relative share in gross domestic product (GDP) is lower than that observed for Canada as a whole.
- In 2011, the share of private investment in Québec in relation to GDP was 8.8%, compared to 11.7% for Canada.

CHART 1

Private investment in Québec

(billions of dollars, in nominal terms)

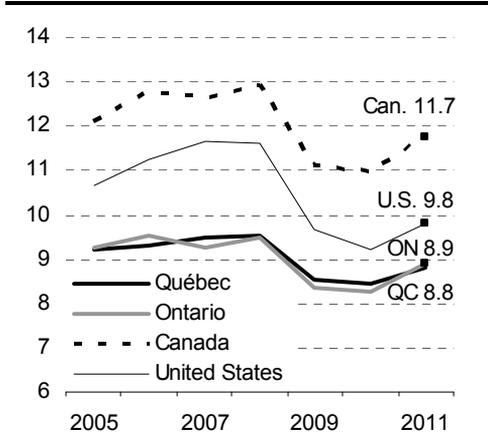


Sources: Institut de la statistique du Québec, Statistics Canada and Ministère des Finances et de l'Économie du Québec.

CHART 2

Private investment

(as a percentage of GDP, in nominal terms)



Sources: Institut de la statistique du Québec, Ontario Ministry of Finance, Statistics Canada, IHS Global Insight and Ministère des Finances et de l'Économie du Québec.

❑ The government's economic vision

If private investment had been of the same relative strength in Québec as for Canada as a whole, it would have been 33.5% higher, i.e. \$10 billion more than the amount actually observed.

The government's economic vision is clear: to guarantee our present and future prosperity, we must stimulate private investment.

- Private investment is the key to economic growth, increased productivity, a higher standard of living, a better trade balance and the spread of innovations.
- Private investment encourages and promotes better workforce training, which in turn attracts new investment.
- The private investment that the government seeks to attract and promote is investment by Québec businesses as well as investment from abroad.
- Sustained development of private investment can play a role analogous to that of public investment in terms of the current economic situation by stimulating economic activity in the short term.

Comparison between public investment in Québec, Ontario and Canada

Effects to be taken into account

The comparison between private investment in Québec, Ontario and Canada must take into account the characteristics of each of these economies.

- In Canada, the overall picture of private investment is influenced by the high level of investment in the oil and gas industry. In 2011, for Canada as a whole, business investment in the oil and gas industry totalled \$55.9 billion, i.e. approximately one quarter of all business investment.
- The comparison between private investment in Québec and Ontario is more direct, given the similarities between the two economies. The level of investment as a share of GDP is relatively equal in both jurisdictions. However, per capita GDP in Québec is approximately 15% lower than in Canada and Ontario. The relative weakness of GDP in Québec thus masks an under-investment in absolute terms, since Québec's wealth measured in per capita GDP is lower.

Comparison between public investment in Québec, Ontario and Canada (cont.)

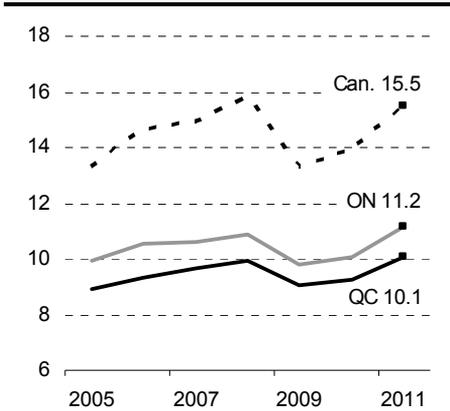
A persistent situation

In taking these effects into account, the best approach is to analyze private investment per worker in this sector, or else to analyze investment in machinery and equipment per worker. Indeed, investment in machinery and equipment has a direct impact on the growth of productivity.

The situation observed nevertheless remains the same: despite the rebound following the 2008 recession, the level of private investment in Québec is lower than that of its main trading partners.

Private investment per worker

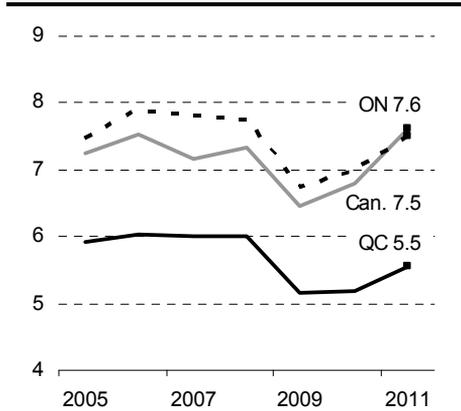
(thousands of dollars, in nominal terms)



Sources: Institut de la statistique du Québec, Statistics Canada, Ontario Ministry of Finance and Ministère des Finances et de l'Économie du Québec.

Investment in machinery and equipment per worker

(thousands of dollars, in nominal terms)



Sources: Institut de la statistique du Québec, Statistique Canada, Ontario Ministry of Finance and Ministère des Finances et de l'Économie du Québec.

❑ The right moment

The current situation is a favourable context for promoting private investment.

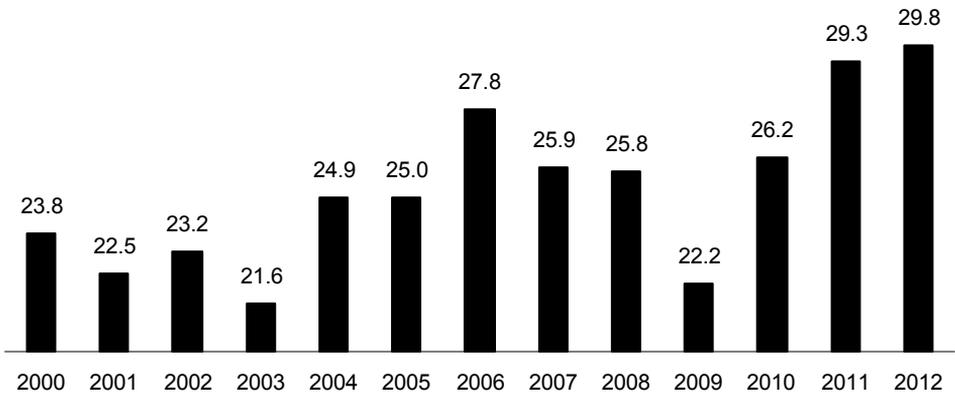
- Businesses have accumulated significant financial resources since the end of the recession due to their high profit levels. Profits of Québec corporations should total nearly \$30 billion in 2012.
- Businesses thus have sufficient financial reserves for making investments.
- Borrowing conditions are favourable due to low interest rates, while the level of the Canadian dollar facilitates purchases of machinery and equipment.

Yet businesses are reluctant to invest due to an uncertain economic situation worldwide.

The moment is right for a “shot in the arm” to encourage businesses to invest in Québec so that they will be ready when the pace of global growth accelerates. These investments will enable businesses to take advantage of upcoming growth.

CHART 3

Corporate profits (billions of dollars)



Sources: Institut de la statistique du Québec, Statistics Canada and Ministère des Finances et de l'Économie du Québec.

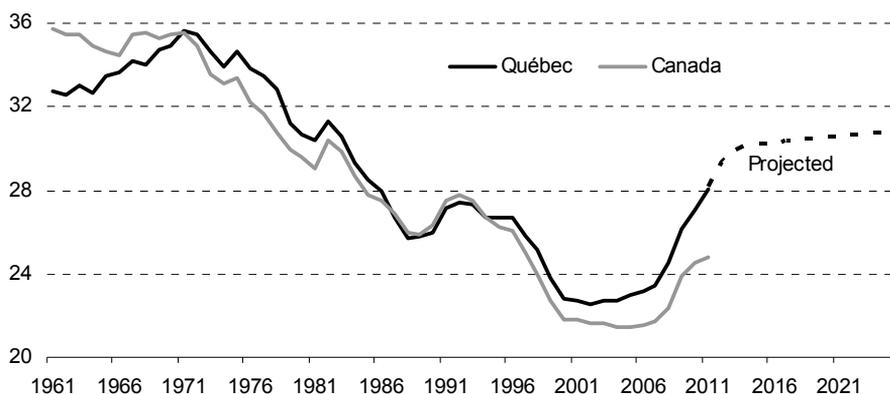
A major focus on public investment

Thanks to the efforts Québec taxpayers have made to support public investment, Québec has benefited from a significant increase in its public capital stock since 2007.

- As a percentage of gross domestic product (GDP), capital stock in the public sector in 2011 returned to the same level as in the early 1980s.
- Also in 2011, capital stock in the public sector as a share of GDP is now significantly higher in Québec than in Canada.

These data mean that government investment has improved the public capital stock that businesses can rely on to expand their activities.

Capital stock in the public sector in Québec and Canada (as a percentage of GDP, in real terms)



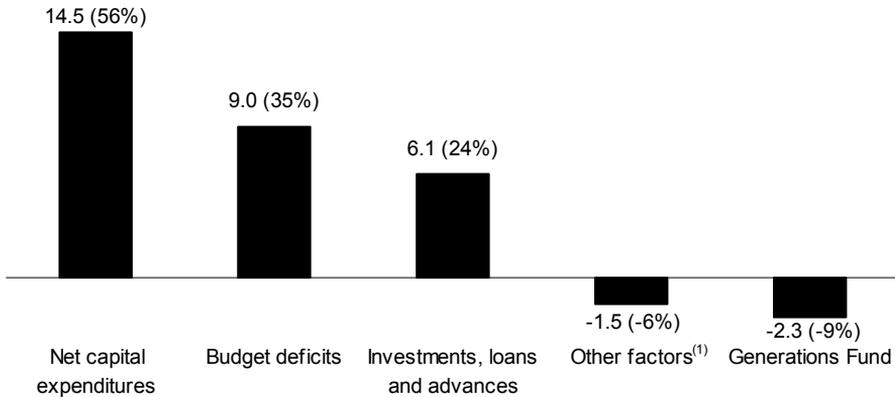
Sources: Institut de la statistique du Québec, Statistics Canada and Ministère des Finances et de l'Économie du Québec.

A major focus on public investment (cont.)

The Québec government's investment effort has come at a cost: it has been accompanied by a significant growth in the debt. Public investment in fact represents the primary factor contributing to the growth in Québec's debt.

Since 2009, net capital expenditures have accounted for 56% of the growth in Québec's gross debt.

Factors responsible for growth in gross debt from 2009 to 2012 (billions of dollars and per cent)



(1) Other factors include, in particular, the change in "other accounts," such as accounts receivable and accounts payable, as well as the change in the value of the debt in foreign currencies.

Characteristics of Québec's economy

Québec's gross domestic product in 2011

Québec's economy is modern and diversified. In 2011, the breakdown of real GDP by sector was as follows: services (75.7%), manufacturing (16.0%), construction (6.1%) and the primary sector (2.2%).

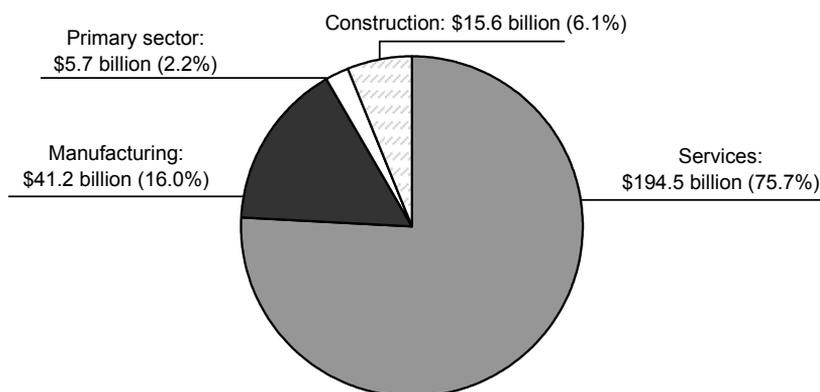
The services sector included, in particular:

- the finance, insurance, and real estate and rental services sub-sector; with a 18.2% share of the economy, this was the largest sub-sector within the services sector;
- the health and education sub-sector (12.8%);
- the trade sub-sector (12.0%).

In the manufacturing sector, the most important sub-sector was metal products and primary metals, with a 2.7% share. Food, beverages and tobacco products (2.4%), wood and paper products (2.2%) and transportation equipment (2.2%) sub-sectors also contributed significantly to Québec's economy.

Breakdown of real GDP by sector in 2011

(billions of dollars and as a percentage of real GDP)



Manufacturing:

- Metal products and primary metals: \$7.1 billion (2.7%)
- Food, beverages and tobacco products: \$6.2 billion (2.4%)
- Wood and paper: \$5.8 billion (2.2%)
- Transportation equipment: \$5.6 billion (2.2%)
- Chemical products and petroleum derivatives: \$5.3 billion (2.0%)
- Others: \$11.3 billion (4.5%)

Services:

- Finance, insurance, real estate and rental services: \$46.8 billion (18.2%)
- Health and education: \$32.9 billion (12.8%)
- Trade: 30.9 billion (12.0%)
- Public administration: \$17.7 billion (6.9%)
- Professional, scientific and technical services: \$11.5 billion (4.5%)
- Transportation and warehousing: \$11.4 billion (4.4%)
- Public services: \$11.3 billion (4.4%)
- Others: \$32.1 billion (12.5%)

Sources: Institut de la statistique du Québec and Ministère des Finances et de l'Économie du Québec.

1.1 Investment, productivity and standard of living

Private investment provides workers with the means to produce more, and do so more efficiently and at a lower cost. It represents the very foundation for productivity.²

❑ Investment, source of productivity

As in Ontario, in Canada or in the United States, productivity gains made in Québec since 1989 are primarily the result of investment.

— In Québec, during the 1989-2010 period, investment accounts for two thirds of productivity gains, the remaining third resulting from production efficiency.

TABLE 1

Gains in productivity, by source of growth, 1989-2010

(2010 constant Canadian dollars, except where otherwise indicated)

	Gains in productivity ⁽¹⁾	Sources of gains in productivity			
		Investment		Production efficiency ⁽²⁾	
		(\$)	(% of total)	(\$)	(% of total)
Québec	9 493	6 269	66	3 224	34
Ontario	11 468	6 391	56	5 077	44
Canada	10 860	7 409	68	3 451	32
United States	17 788	10 288	58	7 500	42

Note: For more information, see *Budget 2012-2013 – Budget Plan*, Section B, “Update on productivity in Québec.”

(1) Contribution of hourly productivity to standard of living gains, in Canadian dollars per capita.

(2) Production efficiency reflects the use of labour and capital.

Sources: Statistics Canada, Bureau of Economic Analysis, Bureau of Labor Statistics, OECD and Ministère des Finances et de l'Économie du Québec.

❑ Productivity, the engine of prosperity

Productivity is, in turn, the main engine of prosperity, particularly in an advanced economy.

A developing economy can make gains by educating its population or by encouraging participation by women in the labour market. In a developed economy such as that of Québec, these factors offer a more limited potential for growth.

² Productivity, as an economic concept, refers to the efficiency of a process aimed at transforming inputs into a result. More specifically, labour productivity is the ratio between output and the quantity of “labour” input used. It is expressed as output (GDP) per worker or per hour worked.

As the report of the Task Force on Business Investment noted, “the only way to generate wealth and avoid losing ground among nations is for each of us to create more wealth during each hour spent working, in other words, to be more *productive*.”³

❑ Standard of living differences that disadvantage Québec

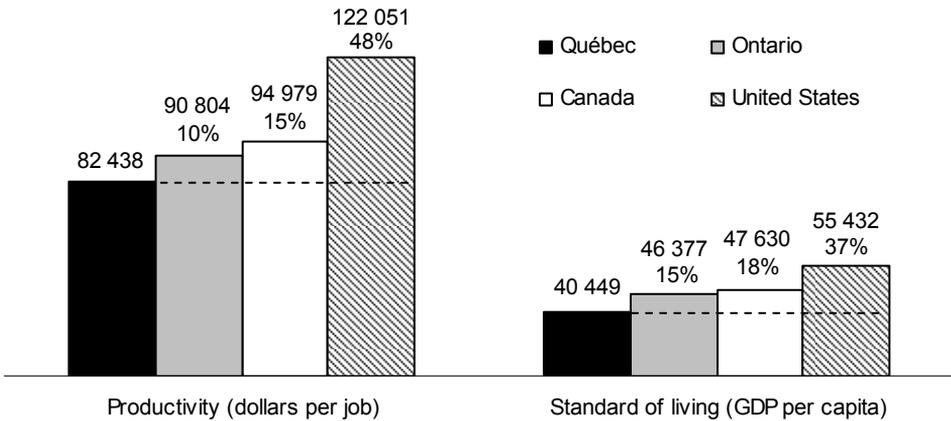
Despite progress in the growth of real GDP per capita in recent years, Québec’s standard of living still lags behind significantly, particularly when compared to that of its main partners. This lower standard of living is attributable in large part to lower productivity.

- In 2010, Québec’s standard of living was 37% lower than that of the United States.
- Productivity in Québec was 48% lower over the same period.

CHART 4

Productivity and standard of living, 2010

(Canadian dollars per job and per capita, difference in per cent compared with Québec)



Sources: Statistics Canada, Bureau of Economic Analysis, Bureau of Labor Statistics, OECD and Ministère des Finances et de l'Économie du Québec.

³ TASK FORCE ON BUSINESS INVESTMENT, *Québec Welcomes Investment* [Report], 2008.

Productivity and standard of living: the experts agree

The Centre for Productivity and Prosperity of HEC Montréal recently published a report entitled *Productivity and Prosperity in Québec – 2012 Overview*.¹

The situation

The report notes that Québec's standard of living is still one of the lowest among a selection of 20 countries in the Organization for Economic Cooperation and Development (OECD).²

- Québec's standard of living, measured by per capita gross domestic product (GDP), improved in 2011.
- At that date, it amounted to nearly \$42 000 per capita, i.e. approximately \$7 000 less than the average for the sample studied.

The causes

To identify the principal causes of this situation, the authors analyzed the full range of factors determining standard of living.

- They demonstrated that over the past 30 years, the rise in the standard of living is attributable essentially to growth in labour productivity. The effect of the other factors – work intensity, employment rate and demography – is marginal in the long term, when they are combined.
- Labour productivity accounts for more than 80% of growth in the standard of living in Québec. However, Québec still lags significantly behind in labour productivity compared to other jurisdictions.

1 CENTRE FOR PRODUCTIVITY AND PROSPERITY, *Productivity and Prosperity in Québec – 2012 Overview*, HEC Montréal, 2012.

2 OECD-20: The 20 OECD countries selected were chosen for reasons of availability of data and represent a diversified sample of social and economic organization models.

1.2 Investment and exports

In an economy as open to the world as that of Québec, investment plays a crucial role in improving competitiveness and thereby ensuring growth in exports.

❑ \$153 billion in exports

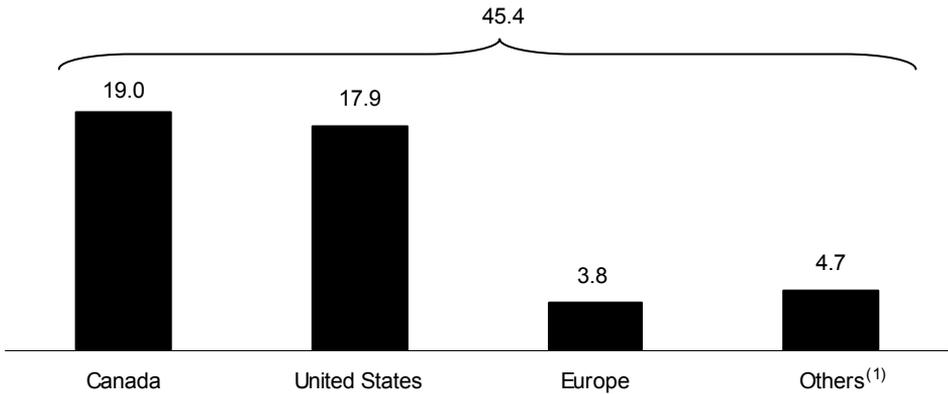
In 2011, Québec businesses exported nearly \$153 billion in goods and services to the rest of Canada and on the world market, representing 45.4% of Québec's GDP.

These interprovincial and international exports went primarily to the rest of Canada (19.0% of GDP), the United States (17.9%) and Europe (3.8%).

CHART 5

Share of interprovincial and international exports in GDP by Québec's trading partners

(as a percentage of nominal GDP, in 2011)



(1) In particular, China, Mexico, Japan, Brazil, South Korea and India.

Sources: Institut de la statistique du Québec and Ministère des Finances et de l'Économie du Québec.

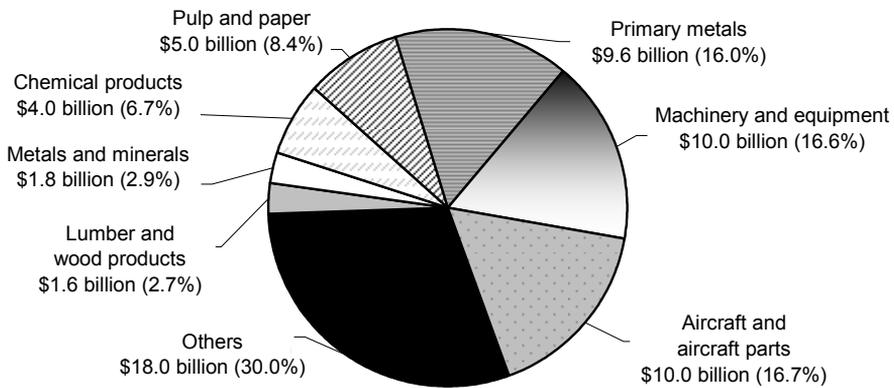
Québec's exports included a range of highly diversified products.

Goods make up more than 80% of Québec's international exports.

- Aircraft and aircraft parts, a high-value-added sector in which Québec enjoys significant competitive advantages, account for the largest share of exports, at 16.7%.
- Machinery and equipment account for 16.6%.
- Primary metals, including steel and aluminum, at 16.0% of exports, rank as the third largest export sector.
- The other major products exported in 2011 are pulp and paper (8.4% of international exports), chemical products (6.7%), metals and minerals (2.9%), and lumber and wood products (2.7%).
- The category of other goods, particularly diversified, accounts for 30.0% of international exports.

CHART 6

Breakdown of international exports by type of product in 2011
(billions of dollars and per cent, in real terms)



Sources: Institut de la statistique du Québec and Ministère des Finances et de l'Économie du Québec.

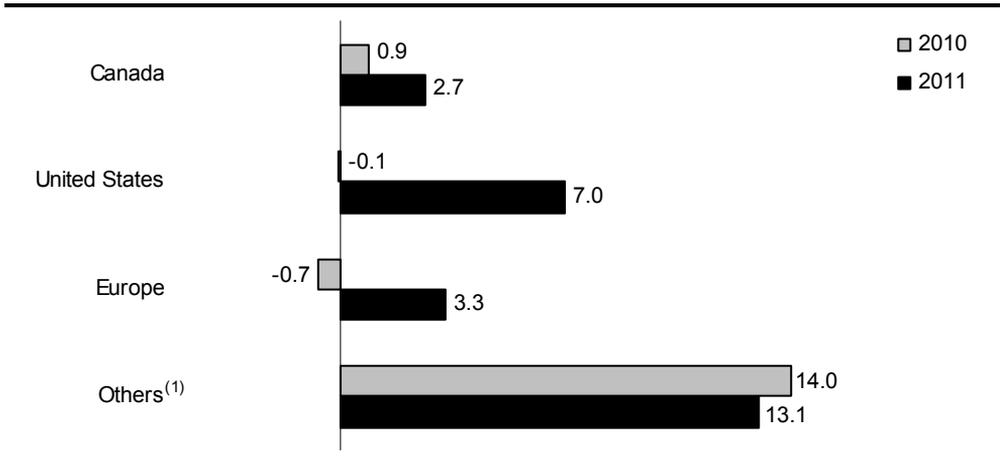
❑ Advantages

Québec can count on major advantages in the area of world trade.

- Thanks to its geographic situation and its participation in the North American Free Trade Agreement (NAFTA), Québec enjoys privileged access to a market of 460 million consumers.
- The share of Québec's exports shipped to fast-growing economies, including China, Mexico, South Korea, Brazil and India, has increased rapidly in recent years.

CHART 7

Change in Québec's international and interprovincial exports of goods, by trading partner (percentage change, in nominal terms)



(1) In particular, China, Mexico, Japan, Brazil, South Korea and India.

Sources: Institut de la statistique du Québec and Ministère des Finances et de l'Économie du Québec.

❑ Exports still slow to rebound

In 2012, and despite these advantages, the volume of Québec's international exports was still lower than before the recession.

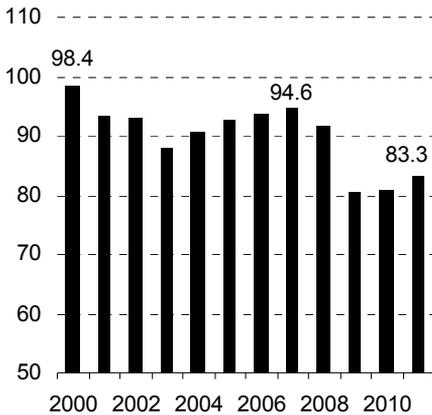
- Québec has not succeeded in taking full advantage of the upturn in world trade since 2008.
- The same phenomenon is evident in the rest of Canada.

This disappointing performance on the world market is all the more worrying given that international trade is growing more rapidly and is much more dynamic than interprovincial trade.

CHART 8

Québec's international exports

(billions of dollars, in real terms)

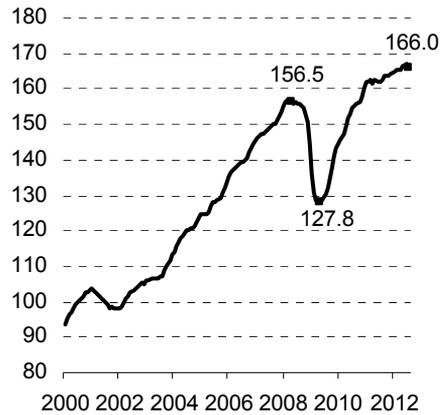


Source: Institut de la statistique du Québec and Statistics Canada.

CHART 9

World trade of goods⁽¹⁾

(in volume, 3-month moving average, index, average 2000 = 100)



(1) Average of exports and imports, deseasonalized data, latest data available August 2012.
Source: Central Planning Bureau (CPB), Netherlands.

❑ An increasingly negative trade balance

At the same time that our exports are slow to rebound, the cost of imports is increasing sharply due in particular to the rising price of oil.

Since 2002, Québec's interprovincial and international trade balance has been negative and this deficit is still growing.

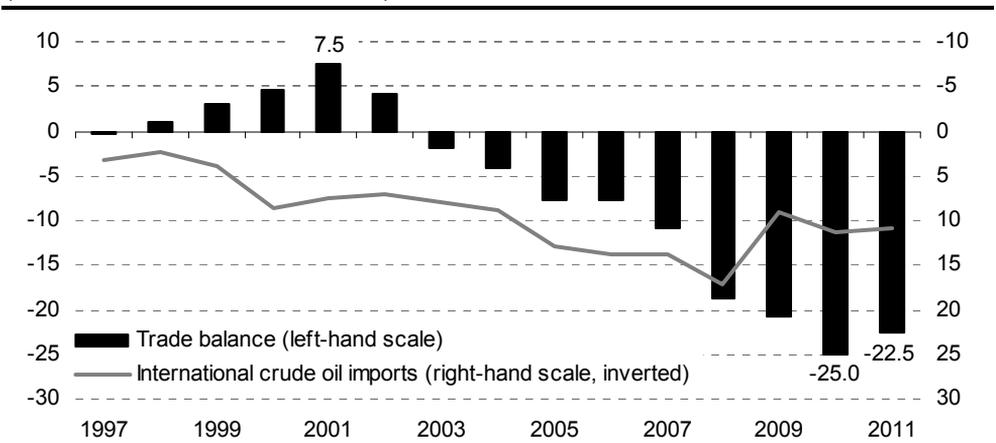
- Québec's trade balance went from a surplus of \$7.5 billion in 2001 to a deficit of \$22.5 billion in 2011.
- In 2011, approximately half of the trade deficit resulted from international imports of crude oil.

Québec's growing trade deficit is very worrying. It represents a loss of wealth that grows each year. It also underscores the declining competitiveness of Québec's goods and services on foreign markets as well as on the Québec and Canadian markets.

CHART 10

Interprovincial and international trade balance and international crude oil imports

(billions of dollars, in nominal terms)



Sources: Institut de la statistique du Québec, Statistics Canada and Ministère des Finances et de l'Économie du Québec.

❑ Declining competitiveness of Québec's businesses

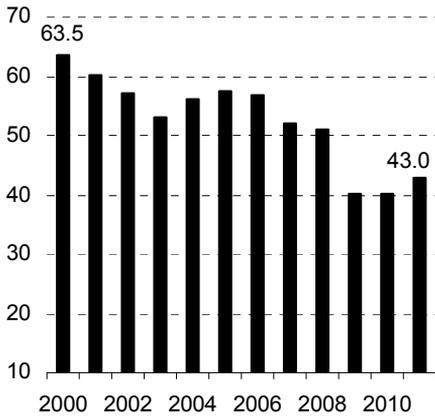
The decline in Québec's international exports for nearly ten years now is attributable in large part to businesses' weak competitiveness on foreign markets, particularly in the United States. This decline in competitiveness has been accentuated by the rising value of the Canadian dollar in a context of fierce competition from emerging economies.

- China's share in U.S. imports more than doubled between 2000 and 2011, rising from 8.2% to 18.1%, while Québec's share declined from 3.3% to 1.9%.
- China has won large market shares in several sectors where Québec traditionally operated, such as furniture, electronic equipment and printing.

CHART 11

International goods exports to the United States

(billions of dollars, in nominal terms)

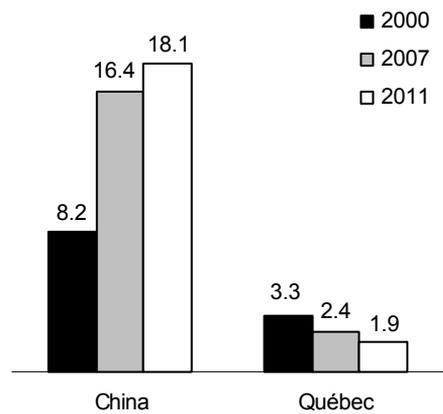


Source: Industry Canada.

CHART 12

Market shares in the United States

(shares of total U.S. imports, per cent)



Sources: Industry Canada, IHS Global Insight and Ministère des Finances et de l'Économie du Québec.

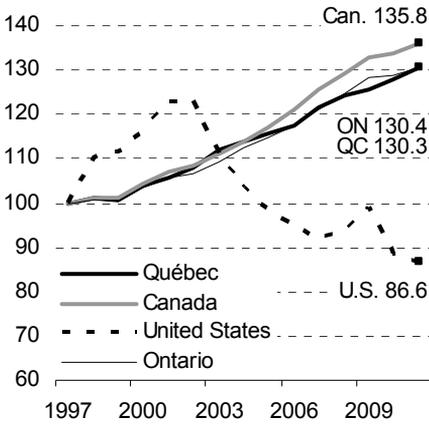
❑ Investing more to counter rising labour costs

Since the early 2000s, unit labour costs have risen in Québec compared to the United States, while manufacturing output has not yet climbed back to pre-recession levels. The same phenomenon is also evident in Ontario and Canada.

This phenomenon is attributable both to the rise in the Canadian dollar and to weaker growth in productivity in Québec.

CHART 13

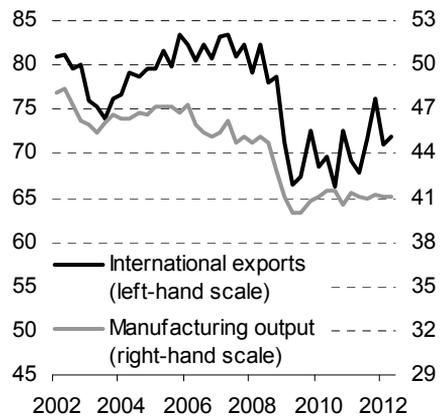
Unit labour costs in the economy as a whole
(index 1997 = 100, Canadian dollars)



Sources: Statistics Canada, Bureau of Labor Statistics and Ministère des Finances et de l'Économie du Québec.

CHART 14

International exports of goods and manufacturing output in Québec
(billions of dollars, in real terms)



Sources: Institut de la statistique du Québec and Ministère des Finances et de l'Économie du Québec.

To counter this phenomenon, there is only one option: we must invest more.

Given Québec's socioeconomic characteristics, Québec cannot compete with emerging economies on the basis of low labour costs. In any event, such an option is not desirable: it is out of the question for Québec to restore its competitiveness at the expense of its workers' wages.

❑ Investing in our comparative advantages

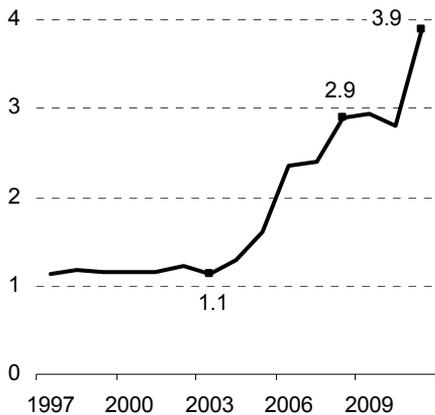
To improve our competitiveness and restore our trade balance, we must therefore increase business investment, source of growth, productivity and competitiveness.

This investment effort must target all sectors where we enjoy comparative advantages: sectors producing goods and services, innovative sectors, but also sectors related to natural resources.

- Québec must therefore invest more in high value added sectors where Québec businesses enjoy advantages in technology and creativity.
- Québec must also continue to invest in natural resources. Development of natural resources represents a source of prosperity and job creation, as well as an opportunity to improve the trade balance.
 - Québec has considerable mineral resources for which worldwide demand is rising due to the development of emerging economies. Mining production is already contributing to our exports.
 - In the energy field, it is well worthwhile for us to continue developing our renewable resources. We must also invest in prospecting and developing our potential petroleum deposits so as to reduce our dependence and our imports. Québec wishes to develop its petroleum potential in accordance with the most rigorous practices in the area of the environment and social acceptability.

CHART 15

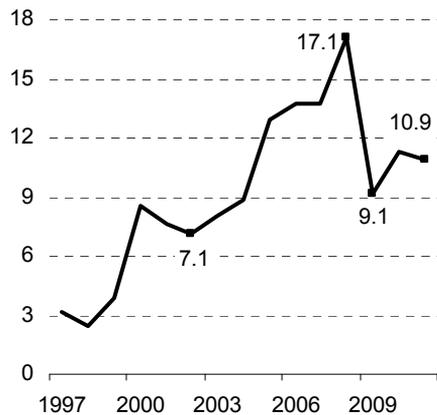
Québec's international ore exports (billions of dollars, in nominal terms)



Sources: Institut de la statistique du Québec, Statistics Canada and Ministère des Finances et de l'Économie du Québec.

CHART 16

Québec's international oil imports (billions of dollars, in nominal terms)



Sources: Institut de la statistique du Québec, Statistics Canada and Ministère des Finances et de l'Économie du Québec.

Prospects for growth in Québec's exports

Modest economic growth since the recession

Since the end of the last recession, the upturn in economic growth has been modest in advanced economies, and particularly for Québec's principal economic and trading partners:

- in the United States, Québec's principal export market, several indicators have still not returned to their pre-recession levels;
- the Euro area is still struggling with major economic problems;
- the emerging economies have experienced weaker growth due to sluggish international demand.

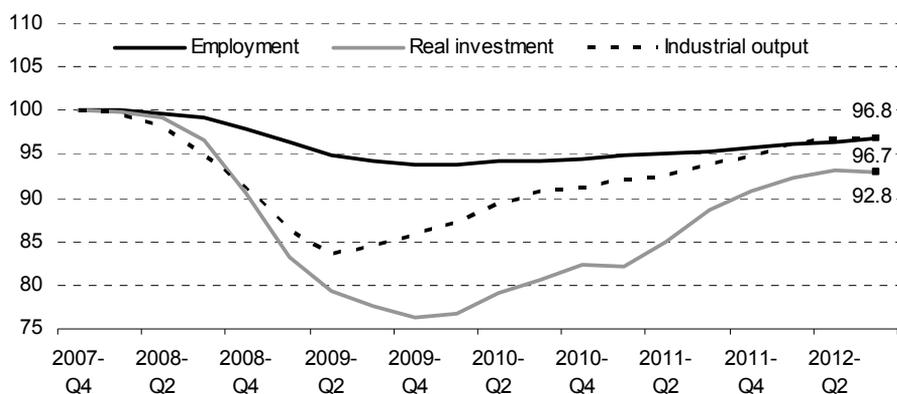
A favourable environment taking shape: opportunities to be seized

Despite the major difficulties still facing these economies, a more favourable environment is taking shape globally. This is particularly true in the United States, where the manufacturing sector and the real estate market are showing signs of recovery. This should lead to a gradual upturn in global growth.

Export opportunities resulting from the upturn in worldwide growth will benefit Québec businesses, provided these businesses are prepared to seize them. However, Québec businesses are not the only ones looking to take advantage of this potential for growth.

In these markets, they are facing fierce competition. They will be unable to take full advantage of the more favourable prospects for economic activity in the United States and elsewhere in the world unless they enhance their competitiveness.

Employment, business investment and industrial output in the United States (index 2007-Q4 = 100)



Sources: IHS Global Insight and Ministère des Finances et de l'Économie du Québec.

1.3 Investment and innovation

Private investment is a means of spreading innovation, a strategic element on which businesses must rely to differentiate themselves from their competitors.

□ The necessity to innovate

In a world where markets are more and more competitive and where new players are seeking to carve out a place for themselves, Québec must invest in research and development (R&D) and in innovation in order to meet the competition head-on and continue to prosper. To penetrate world markets, Québec businesses must:

- stand out by offering products and services that are always on the cutting edge;
- satisfy demand in a flexible and customized manner;
- efficiently manage the entire production line, in addition to being competitive.

To do so, they must invest in order to encourage innovation, use the best production machinery and the best transportation equipment, take full advantage of information technologies and implement efficient business strategies for exports.

Survey on innovation in the Québec manufacturing sector

According to the *Enquête sur l'innovation dans le secteur de la fabrication au Québec*, between 2008 and 2010, slightly more than 68% of establishments in the manufacturing sector introduced technological innovations, i.e. innovations in products or processes.

Of these businesses, 86% carried out in-house R&D activities, 80% acquired machinery and equipment, computer hardware or software, and 74% had recourse to training activities.

The objectives targeted by innovation in products or processes are, in order of importance:

- maintaining and increasing market shares;
- improving the quality and the range of goods or services;
- augmenting production capacity;
- accessing new markets.

Also according to this survey, more than half of manufacturing businesses introduced organizational innovations, in particular for the purpose of reducing costs per unit of output.

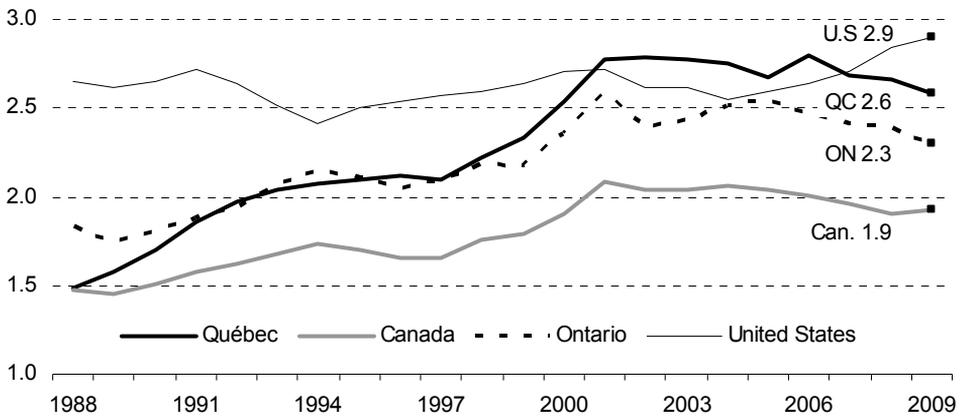
Source: INSTITUT DE LA STATISTIQUE DU QUÉBEC, *Bulletin S@voir.stat*, v. 12, no. 3, June 2012.

❑ Significant progress

In terms of the correlation R&D expenditures to GDP, Québec has made significant progress since the late 1980s. Québec has overtaken Canada and has narrowed the gap separating it from the United States.

CHART 17

Domestic expenditures in research and development (as a percentage of GDP)



Sources: Statistics Canada, Institut de la statistique du Québec and Ministère des Finances et de l'Économie du Québec.

The Québec government's efforts to promote R&D

Over the years, Québec has invested a great deal in research and development.

- The tax credit for scientific research and experimental development encourages businesses to invest in R&D. It is, moreover, the most generous such credit in Canada for SMEs.
- Support for fundamental research is provided through the action of Québec research funds.
- Technologies that are strategic for Québec, such as genomics, nanotechnologies and optics-photonics, receive significant investment.
- Because of investment in universities, hospitals and public research centres, Québec stands out thanks to the quality of its researchers.
- Partnerships between the research community and businesses are encouraged by sector-based industrial research groups and industrial clusters (Montréal InVivo, Aéro Montréal, Écotech Québec, etc.).

❑ A levelling off and special problems

In recent years, however, the pace of R&D expenditures has levelled off in relation to GDP. This same phenomenon is evident in Canada and in Ontario. Only the United States has seen a new upturn in R&D expenditures in relation to GDP.

Thus Québec seems to be moving away from the 3% objective it had set for R&D expenditures in relation to GDP.

Specific problems have also been noted in the life sciences sector.

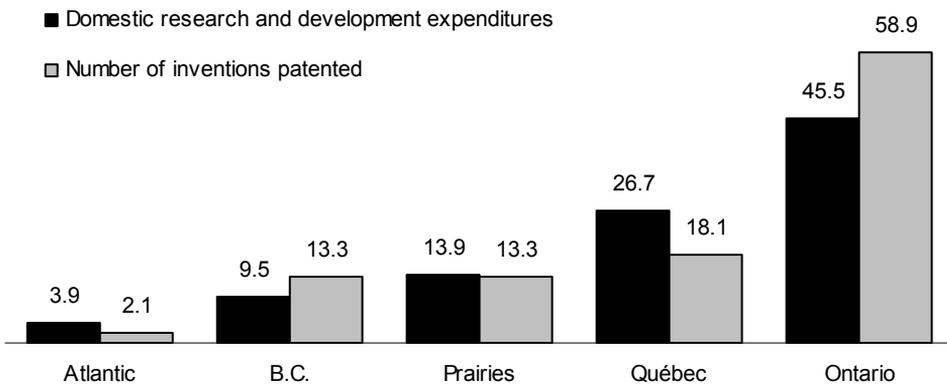
- Pharmaceutical businesses are tending to abandon their R&D activities in Québec, particularly because of rising R&D costs and declining returns on discoveries.
- The transformation in the life sciences industry's business model has led a number of governments to review their interventions in favour of research and development in this industry. Québec must follow suit.

Despite significant investment in R&D, Québec still lags behind in the area of patents. Québec accounts for 26.7% of total Canadian R&D expenditures, but the number of inventions patented is only 18.1% of the total for Canada.

We must find appropriate solutions to meet these challenges.

CHART 18

Total R&D expenditures and number of inventions patented – 2009 (as a percentage of Canadian total)



Sources: Institut de la statistique du Québec and United States Patent and Trademark Office (USPTO).

❑ Progress to be made on several fronts

Progress must be made on several fronts.

Even though Québec has a good research and innovation structure, it must do better and ensure that research results meet market needs and lead to concrete innovations.

- We must see to it that society as a whole benefits from public research by encouraging private companies to develop the results. These companies will then be able to take advantage of the results to improve their products and processes and thereby differentiate themselves from their competitors.
- Striking the right balance between fundamental research and applied research is the way for Québec to make the best use of its knowledge.

We must also strive for a harmonious scheme of public measures and private initiatives, relying on their complementarity and their combined efficiency to maximize the social and economic benefits of research.

- Government support for R&D activities must not take the place of private funding. It must rather encourage it.
- Certain studies show, in fact, that too high a level of public funding can result in businesses reducing their own investments.

Public assistance must be targeted to achieve the desired objectives in the specialized niches where Québec is a leader.

❑ Banking on foreign investment as well

Efforts to support innovation cannot be limited to investment by Québec businesses.

Québec must also take advantage of direct foreign investment within its territory to accelerate the spread of innovation.

The advantages of direct foreign investment

A source of innovation

Direct foreign investment in Québec supplements investment by Québec companies and increases the available capital. In addition, this source of capital often leads to improved productivity gains, since foreign companies investing in Québec generally have higher productivity and new management practices. The resulting increase in competition encourages Québec companies to innovate and to use technologies more efficiently.

Foreign companies investing in Québec are often large corporations or multinationals. They are more oriented toward research and development, as well as innovation. By bringing new technologies with them or by developing them in Québec, they make possible certain technology transfers to Québec industry.

An impact on local businesses

Direct foreign investment also plays an important role in the growth of suppliers, in the development of cutting-edge industries and in strengthening strategic subsidiaries.

The arrival of major international players brings with it jobs and investment in cutting-edge technologies. It facilitates exchanges and networking with local SMEs. It helps to attract still more businesses.

Having world-class players in proximity can serve as a lever for Québec businesses because their demand for supplies opens up all sorts of opportunities. By securing a foothold in the supply chain of international firms, Québec businesses can gain access to markets around the world.

1.4 Investment and workforce training

There is a close link between private investment and workforce training.

- Private investment depends directly on the quantity and the quality of the available labour supply.
- Private investment simultaneously contributes to making the workforce more productive, providing it with better training and ensuring it has employment opportunities.

An insufficient labour supply or inadequate workforce training can hinder private investment.

- This is so in the case of labour shortages resulting from the aging of the population and students dropping out of school.
- Investment can be stymied when there is a mismatch between workforce training and the needs of businesses.

Private investment is a part of the solution

In the area of workforce training, private investment is also a part of the solution.

- By creating interesting employment opportunities for graduates, business investments are a source of encouragement for young people by motivating them to stay in school.
- Because of the employment prospects they give rise to, private investment can even influence young people in choosing their field of studies.
- Businesses can contribute directly to training their workers to help them remain at the cutting edge of knowledge. Investment in physical capital often leads businesses to make an additional investment to upgrade the workers who will be using this capital.

More specifically, business investments in specialized sectors can have a positive impact on workforce development by creating the economic conditions in which cutting-edge knowledge and skills are at a premium.

- Higher demand for qualified workers encourages individuals to invest in their training and education in view of improving their chances of finding a well-paid job.
- High demand for qualified workers also has a positive effect on retaining our graduates and attracting immigrants who have key skills.

Investment in machinery and equipment and workforce training

Even though they are essential, investment in machinery and equipment is not always enough to increase productivity. It is also necessary to invest in training to update workers' knowledge and thereby optimize the return on investment.

A study by the Centre for Productivity and Prosperity of HEC Montréal published in 2011¹ shows that in order to maximize productivity gains, it is not enough to invest in new equipment or innovative technologies.

Additional investment in training is usually necessary to achieve productivity gains. They are required in order to keep workers updated in the use of new technologies and in work management and organization.

Measures to encourage workforce training

Under the *Act to promote workforce skills development and recognition*, the Québec government encourages training activities to develop the skills of personnel in medium and large businesses.

Public investment of \$360 millions will be made in 2012-2013 to promote worker training, particularly through:

- the Workforce Skills Development and Recognition Fund, which promotes and provides financial or technical support for initiatives to develop workforce skills;
- the Workforce Development Fund, which supports individuals and companies in their training efforts;
- the tax credit for manpower training, which reduces the cost of training for workers in the manufacturing, forestry and mining sectors.

¹ CENTRE FOR PRODUCTIVITY AND PROSPERITY, *Comprendre l'innovation à l'aide des technologies de l'information et des communications*, HEC Montréal, December 2011.

An effective education system

Québec has a diversified and top-quality higher education system, with the presence of 48 CEGEPs and 18 universities on its territory. This enables Québec to train a top-notch workforce. Thanks to its higher education system, Québec has succeeded in raising the educational level of its population.

The percentage of Quebecers aged 25 to 54 with a university degree has nearly doubled, from 13.3% in 1990 to 26.4% in 2011. Yet the percentage of Quebecers with a university degree is still lower than for Canada as a whole and, more specifically, Ontario.

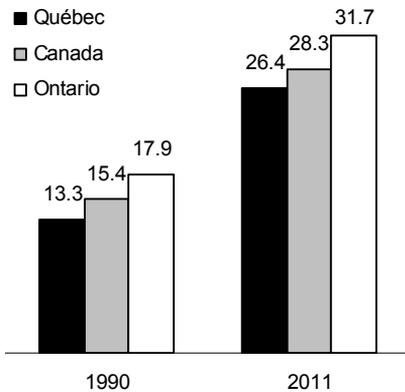
Québec also has, throughout its territory, a high-quality and effective elementary, secondary and college-level education system.

- According to a survey by the Programme for International Student Assessment (PISA), Québec's students each year obtain good results in reading, mathematics and science.
- Approximately 70 000 new graduates of vocational and technical training are added each year to the specialized workforce.

While Québec can be proud of the progress achieved and the quality of its educational institutions, it cannot ignore the fact that a great many young people leave school without a diploma.

Population aged 25 to 54 with a university degree

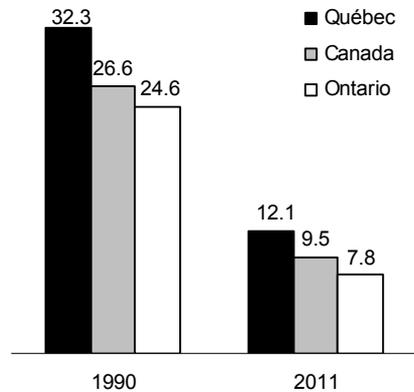
(as a percentage of the population aged 25 to 54, all educational levels)



Source: Statistics Canada.

Population aged 25 to 54 without a secondary school diploma

(as a percentage of the population aged 25 to 54)



Source: Statistics Canada.

1.5 Investment and regulations

Regulation, or rather the administrative burden that regulations impose on businesses, can be an obstacle to investment.

- Regulations are essential to enable the government to discharge its responsibilities.
- Although necessary, regulations generate costs for businesses and mobilize human resources that could be put to more productive use. Regulations can thus have a negative impact on economic growth and job creation.

□ **Simpler and better regulations**

Special attention must therefore be paid to the administrative constraints imposed on businesses, and efforts must be forthcoming to alleviate those constraints.

- According to a study by the Organization for Economic Cooperation and Development (OECD) published in 2009,⁴ nearly all of the Organization's member countries have launched initiatives to reduce their administrative burden (29 out of 30 countries that were then members⁵) and have reformed or streamlined their regulations (28 out of 30 countries).
- Québec has followed suit. For more than fifteen years, Québec has worked tirelessly to reduce the unwanted repercussions of its regulations and administrative formalities, and also to evaluate their impact.
- In 1996, Québec adopted the Government Policy on Regulatory and Administrative Streamlining, which requires departments and agencies to analyze the impact of their proposed regulations.
- Since that date, nearly 80% of the recommendations formulated the Groupe-conseil Lemaire (1998, 2000 and 2001) and the Groupe-conseil Dutil (2003) have been implemented.

Despite the work accomplished, Québec can do even more to make life easier for businesses. In a survey of its members by the Canadian Federation of Independent Businesses conducted in 2009,⁶ nearly two thirds of respondents identified government regulations and administrative formalities as one of the principal issues facing SMEs.

⁴ Regulatory Policy Committee of the OECD, *Indicators of Regulatory Management Systems*, 2009.

⁵ The OECD now has 34 member countries.

⁶ CANADIAN FEDERATION OF INDEPENDENT BUSINESSES, *Sondage sur les opinions de nos membres*, January-March 2009.

2. BUDGET 2013-2014: THE GOVERNMENT IS TAKING IMMEDIATE ACTION

The government is taking immediate action in Budget 2013-2014.

To stimulate private investment, the key to future prosperity, the government is taking immediate initiatives and announcing its agenda for the coming months, laying the foundation for consistent and orderly action in favour of private investment.

□ Action on four levels

The economic vision the government is laying before Quebecers includes actions on four levels:

- From the moment of the budget speech, the government is putting into effect two initiatives, similar to a fiscal “one-two punch”, to stimulate private investment as quickly as possible.
- The government is setting up new tools providing concrete support for businesses that want to invest in Québec – with the creation of the Groupe d’action ministérielle pour la mise en œuvre des projets d’investissement privé and the Banque de développement économique du Québec.
- The government is announcing the approach it will take to support private investment in many significant sectors of Québec's economy. These sectoral actions concern development of northern Québec and mining development, natural resources processing, the development of transportation and green technologies, the biopharmaceutical sector, energy, agriculture and the biofood industry, tourism, the Gaspésie–Île-de-la-Madeleine region and the social economy.
- This sectoral action will be accompanied by a structural approach as a result of the definition of comprehensive strategies and policies concerning manpower training, research and innovation, external trade and red tape reduction.

2.1 Two “one-two punch” initiatives

Québec is in an enviable position with one of the most favourable tax systems for investment, allowing a better net return for investors.

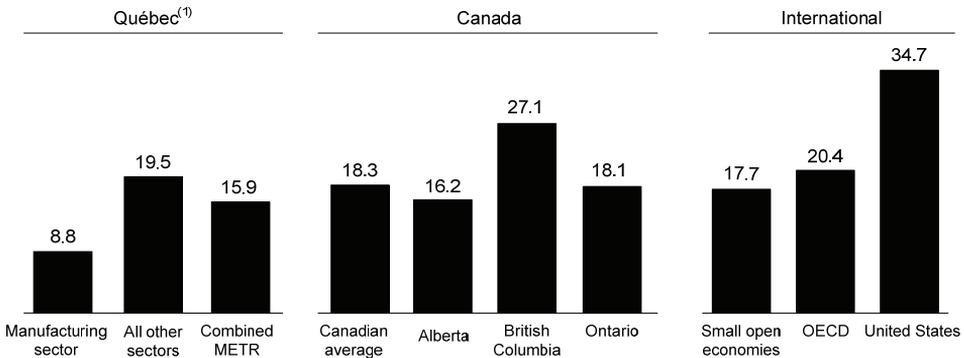
□ Keeping the tax system competitive

A good indication of the attractiveness of our tax environment can be obtained by comparing the marginal effective tax rate on investment⁷ (METR) in Québec and elsewhere in the world. The METR represents the portion of the return on an investment allocated to the payment of taxes. The lower the METR, the higher the after-tax return on investment.

- Investment by businesses is, on average, taxed less in Québec than in Ontario, British Columbia and Alberta. Québec’s tax system compares just as well at the international level.
- In 2014, companies in Québec will be subject to a marginal effective tax rate of 15.9%, lower than the Canadian average (including Ontario), the United States and the OECD average.

CHART 19

Comparison of marginal effective tax rates on investment (METR) – 2014 (per cent)



(1) The estimated METRs for Québec reflect the adjustment to the effective rates of the tax credit for investments.

⁷ Marginal effective tax rates are indicators of the impact of the tax system on new investments. They represent the effect of all tax expenses and rules affecting the return on capital invested. In particular, they take into account the tax on capital, sales tax, corporate income tax, depreciation rules and rates, investment tax credits as well as accounting methods for inventory.

❑ **Québec is doing more**

The government is committed to keeping a competitive tax system in Québec that fosters private investment.

To do more and accelerate business investment decisions, the government is announcing:

- the creation of a new tax holiday, the tax holiday for investments (THI);
- the extension and improvement until 2017 of the investment tax credit that was to end in 2015.

2.1.1 The THI: a 10-year tax holiday to stimulate large projects

The first “one-two punch” initiative announced in Budget 2013-2014 is designed to accelerate large investment projects: investments in large projects for which a certificate is issued will give rise to a 10-year tax holiday applicable to corporate income tax and the contribution to the Health Services Fund – the THI.

The THI targets the following sectors:

- manufacturing;
- wholesale trade and warehousing, in particular value-added distribution centres;
- data processing and hosting.

Investments in natural resources processing may therefore benefit from this significant measure.

❑ **A powerful signal sent to investors**

The government, through this measure, is sending a powerful signal to investors, in particular those in the manufacturing sector and the new economy, to encourage them to move ahead quickly with their large investment projects in Québec and, as a result, create jobs and wealth.

This measure as already proven its worth.

A tax holiday for major investment projects was implemented as part of the 2000-2001 Budget Speech. It allowed businesses that carried out significant investment projects not to pay corporate income tax, the capital tax and the contribution to the Health Services Fund for ten years.

The measure, introduced in 2000-2001, was suspended in June 2003. The tax holiday had major effects: it supported the carrying out of 14 large investment projects representing \$4.7 billion and supporting close to 7 700 jobs at the height of the measure’s impact.

❑ The measure

Taking its cue from the tax holiday for major investment projects, the main parameters of the THI are:

- a minimum investment of \$300 million to be carried out over a maximum of 48 months;
- a tax holiday period of 10 years, applicable to corporate income tax and the contribution to the Health Services Fund;
- large projects must be in an eligible activity sector, i.e. the manufacturing, wholesale trade and warehousing (value-added distribution centres in particular) or data processing and hosting;
- the value of the tax holiday may not exceed 15% of the total eligible investment expenditures.

The measure is temporary. Businesses will have three years after the day of the 2013-2014 Budget Speech to apply for an initial certificate from the Minister of Finance and the Economy in relation to their investment project.

The THI's financial impact for the government will be:

- \$8 million in 2016-2017;
- \$12 million in 2017-2018.

TABLE 2

Parameters of the tax holiday for investments (THI)

Parameters	Details
Eligible activity sectors	<ul style="list-style-type: none">– Manufacturing sector– Wholesale trade and warehousing (value-added distribution centres)– Data processing and hosting
Minimum investment threshold	<ul style="list-style-type: none">– At least \$300 million
Targeted tax bases	<ul style="list-style-type: none">– Corporate income tax– Contribution to the Health Services Fund (HSF)
Length of the tax holiday	<ul style="list-style-type: none">– 10 years
Maximum value of the tax holiday	<ul style="list-style-type: none">– 15% of total eligible investment expenditures
Application period for an initial certificate	<ul style="list-style-type: none">– Three years as of the day of the 2013-2014 Budget Speech

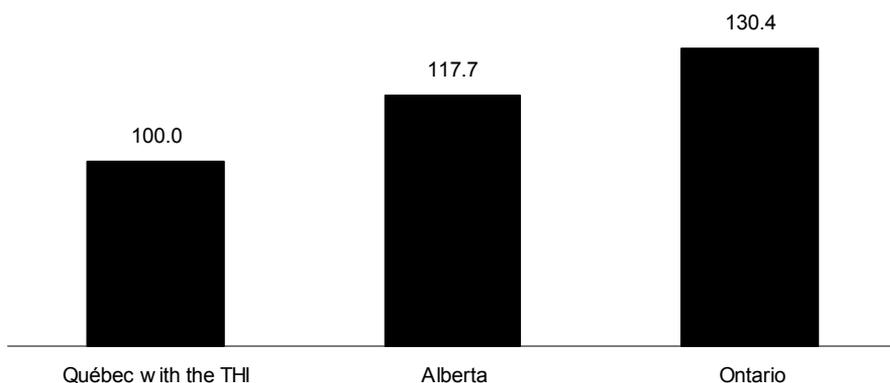
The THI: a significant advantage for carrying out large investment projects in Québec

Companies in Québec operate under a tax system that is favourable for investment. With the implementation of the THI, companies in Québec will have an additional advantage when carrying out major projects.

To illustrate, a company carrying out a \$350-million investment project in the manufacturing sector in Québec will, during the THI's application period (10 years), have a tax burden 17.7% lower than what it would have had under Alberta's tax system.

- Compared to Ontario's tax system, the advantage will be 30.4%.

Tax burden over 10 years of a large investment project⁽¹⁾ – Québec with the THI, Alberta and Ontario (Québec with the THI = 100)



(1) The tax burden represents the total, over 10 years, of provincial and federal corporate income taxes, payroll taxes and the property tax for a \$350-million investment project producing an after-tax internal rate of return of 12% in Québec before application of the tax holiday.

Source: Ministère des Finances et de l'Économie du Québec.

2.1.2 Extension and improvement until 2017 of the application period of the tax credit for investments

The government is announcing a second “one-two punch” initiative to foster private investment, with the extension and improvement until 2017 of the tax credit for investments.

The tax credit for investment has been force since Budget 2008-2009 and applies to manufacturing and processing equipment. It is scheduled to expire on December 31, 2015.

- Since Budget 2012-2013, property used for smelting, refining and hydrometallurgy of certain metals has been eligible for the tax credit for investments. For such property, the tax credit for investments is in force until December 31, 2017.
- The base rate of the tax credit is 5%. It can reach 40% depending on where the investment is carried out and the size of the business.

□ The measure

To encourage businesses to invest quickly, the government is announcing a two-part measure.

■ Extension of the tax credit

The government is announcing that the tax credit for investments relating to the purchase of manufacturing and processing equipment is being extended for two years, i.e. until December 31, 2017.

■ Improvement to the tax credit for certain resource regions

The rates of the tax credit for investments will be increased for businesses in the resource regions located in intermediate zones.

- Accordingly, the 20% and 30% rates that apply in the intermediate zones will be raised to 25% and 35% respectively.
- This improvement will apply for businesses that are not covered by one of the tax credits for processing in the resource regions.

■ Other parameters

The other parameters of the tax credit for investments will continue to apply. In particular, SMEs that carry out investments in central regions or remote resource regions will enjoy the current increased rates.

By investing in manufacturing and processing equipment, businesses can replace obsolete machines with new ones incorporating leading technology, and thus become more productive. Québec manufacturing companies must invest in the short term if they want to position themselves to take advantage of opportunities that will arise on their market in the medium and long term.

These changes to the tax credit for investments will provide financial support over a longer period for 3 000 businesses, including more than 2 500 SMEs enabling them to increase the return on their investments at reduced risk, and thus to carry them out at an accelerated pace.

This initiative's financial impact for the government will be:

- \$1 million in 2013-2014;
- \$5 million in 2014-2015;
- \$16 million in 2015-2016.

TABLE 3

Parameters of the tax credit for investments

	Rate according to the corporation's size	
	Paid-up capital less than \$250 million ⁽¹⁾	Paid-up capital greater than \$250 million ^{(1),(2)}
Central regions		
<ul style="list-style-type: none"> Capitale-Nationale, Estrie, Montréal, Outaouais, Chaudière-Appalaches, Laval, Lanaudière, Laurentides, Montérégie and Centre-du-Québec 	10%	5%
Intermediate regions		
<u>Intermediate zone</u>		
<ul style="list-style-type: none"> Western Bas-Saint-Laurent,⁽³⁾ Saguenay–Lac-Saint-Jean, Mauricie, and Antoine-Labelle, Pontiac, Vallée-de-la-Gatineau RCMs 	20% or 25% ⁽⁴⁾	5%
<ul style="list-style-type: none"> Eastern Bas-Saint-Laurent: Matane, La Mitis and La Matapédia RCMs 	30% or 35% ⁽⁴⁾	5%
<u>Remote zone</u>		
<ul style="list-style-type: none"> Abitibi-Témiscamingue, Côte-Nord, Nord-du-Québec and Gaspésie–Îles-de-la-Madeleine 	40%	5%
Refundability	Yes	No
Cumulative cap on eligible investments giving rise to enhanced parameters	\$75 million	Not applicable
Eligible investments	Manufacturing and processing equipment (capital cost allowance classes 29 and 43) acquired before December 31, 2017. Equipment used for smelting, refining and hydrometallurgy ⁽⁵⁾ acquired before December 31, 2017.	

(1) Where a corporation's paid-up capital, calculated on a consolidated basis, is greater than \$250 million, but less than \$500 million, the increased rate of the tax credit and the portion in which it is refundable are reduced linearly.

(2) These parameters also apply for eligible investments that exceed the cumulative cap of \$75 million.

(3) Including the Rivière-du-Loup, Rimouski-Neigette, Kamouraska, Témiscouata and des Basques RCMs.

(4) The higher rates of 25% and 35% apply only for businesses that do not claim the tax credit for processing activities in the resource regions, the tax credit for the Vallée de l'aluminium or the tax credit for Gaspésie and certain maritime regions of Québec.

(5) Excluding equipment used for smelting or refining of ore extracted from a gold or silver mine.

2.2 Concrete support for businesses

The government is announcing two measures that provide concrete support for businesses that invest:

- implementation of an “express lane” for major investment projects, thanks to the Groupe d’action ministérielle pour la mise en œuvre des projets d’investissement privé;
- creation of the Banque de développement économique du Québec, which will generate significant leverage to support investments.

2.2.1 An express lane: the Groupe d’action ministérielle pour la mise en œuvre des projets d’investissement privé

To make it easier to carry out investment projects, the government is setting up the Groupe d’action ministérielle pour la mise en œuvre des projets d’investissement privé.

This ministerial committee will be mandated to accelerate major investment projects throughout Québec.

Groupe d’action ministérielle pour la mise en œuvre des projets d’investissement privé

The government is setting up the Groupe d’action ministérielle pour la mise en œuvre des projets d’investissement privé to ensure that government action in various investment projects is consistent and coordinated.

Forceful government involvement

This group, chaired by the Premier, will bring together the Minister of Finance and the Economy, the Minister for Industrial Policy and the Banque de développement économique du Québec, the Minister of Natural Resources and the Minister of Sustainable Development, Environment, Wildlife and Parks, as well as the President and Chief Executive Officer of Investissement Québec and the President and Chief Executive Officer of Hydro-Québec.

As a result of this initiative, the government will be able to coordinate follow-up on large private investment projects at the highest level and intervene optimally.

A mission to foster private investment

The new ministerial committee’s mission is very clear: it must contribute actively to carrying out of major private investment projects throughout Québec.

In particular, the committee will see that structuring and wealth-generating economic projects in the processing sector are carried out to maximize the economic effects of projects carried out in the natural resources sector.

2.2.2 Powerful leverage supporting investors: the Banque de développement économique du Québec

As part of Budget 2013-2014, the government is substantially increasing the power of its available leverage to support private investment – and therefore prosperity in Québec.

The government has set up the Banque de développement économique du Québec to provide Québec with a real force in favour of private investment that will be operational immediately in every region of Québec.

□ Consolidation of two networks, annual resources of at least \$500 million and more power to the regions

The government is thus announcing the creation of the Banque de développement économique du Québec.

- The government is bringing together under the authority of a single organization the initiatives previously divided among Investissement Québec and the regional network of the Ministère des Finances et de l'Économie, an offshoot of the former Ministère du Développement économique, de l'Innovation et de l'Exportation.
- The new organization will have significant resources to support investments:
 - it will manage the regionalized development fund, combining the operations of Investissement Québec and front-line programs of the Ministère des Finances et de l'Économie, i.e. at least \$500 million annually;
 - in addition to this recurring amount, two funds, with operational funding of \$250 million, are being created on a one-time basis to assist the regions affected by the termination of asbestos production and nuclear power generation.
- With the creation of the Banque de développement économique du Québec, new economic powers will be granted to the regions with the implementation of regional economic development councils.

The bill creating the Banque de développement économique du Québec will be tabled shortly. The Bank will report to the Minister for Industrial Policy and the Banque de développement économique du Québec.

In setting up the new organization, the employees concerned will be protected and services to target clientele will be improved. A transition committee will be set up to ensure that the major challenge of setting up the Banque de développement économique du Québec is met successfully.

❑ **Combining Investissement Québec and the front-line activities of the Ministère des Finances et de l'Économie**

The Banque de développement économique du Québec is being created by combining Investissement Québec and the front-line activities of the Ministère des Finances et de l'Économie.

■ **Substantially improved action**

This will substantially improve public intervention in economic development.

- Coordination among the various players is frequently insufficient and unable to optimize the support needed for certain investment projects.
- Access to government support is more difficult for some groups.

Henceforth, a single government organization will be charged with offering financial support to for-profit businesses, cooperatives, social economy businesses and foreign businesses looking to set up operations in Québec.

In addition, to reduce red tape for businesses, the Banque de développement économique du Québec will enable more consistent management of the various forms of government assistance and make better use of existing know-how.

■ **Front-line intervention**

The Bank will be present in every region of Québec. For-profit businesses, cooperatives, social economy businesses and foreign investors will have easier access to the full range of services available to them.

The Banque de développement économique du Québec will be responsible for front-line intervention in support of business creation and growth in Québec by:

- assisting promoters with their project;
- offering various forms of financial services and support;
- managing the regionalized development fund combining the operations of Investissement Québec and the front-line programs of the Ministère des Finances et de l'Économie;
- administering the sectoral parameters of certain fiscal measures and the various types of government support, in particular from the Economic Development Fund;
- improving synchronization with other regional players, local development centres in particular.

■ **Priorities**

The Banque de développement économique du Québec will focus its efforts on:

- growth of businesses with promising or structuring projects;
- support for business start-ups, in particular through enhanced assistance and advice;
- internationalization of Québec businesses and exports;
- financial support for in-house innovation and research by businesses.

■ **Complete currently available services**

The Banque de développement économique du Québec will offer financial products and tools in addition to the range of services offered by traditional financial institutions, i.e.:

- consulting services;
- loans in addition to those of other financial institutions, loan guarantees and patient capital;
- equity capital and debentures.

In addition, in the course of attracting businesses or retaining them, the Banque de développement économique du Québec may exceptionally offer non-repayable contributions on behalf of the Economic Development Fund.

Fields of operation of the Banque de développement économique du Québec

Cooperatives and social economy

Support for cooperatives and social economy businesses will be consolidated in a specialized sector of the Banque de développement économique du Québec.

This sector will offer a full range of products adapted to these customers.

Ressources Québec

Ressources Québec, a subsidiary of Investissement Québec, will become a subsidiary of the Banque de développement économique du Québec. It specializes in providing financial solutions and assistance for projects relating to mines or hydrocarbons.

Ressources Québec will receive the planned capitalization of \$250 million.

Ressources Québec will administer the new \$750-million Capital Mines Hydrocarbures fund. The fund will be used for government participations in projects relating to mines or hydrocarbon.

Venture capital

The venture capital funds and corporations currently managed by Investissement Québec will be placed under the management of a new subsidiary of the Banque de développement économique du Québec specializing in venture capital.

The subsidiary's mission will be to facilitate business start-ups, identify high-potential SMEs and promising investment niches, assist promoters and participate financially in projects, in particular in cooperation with tax-advantaged funds.

The government will provide capital of \$50 million for this subsidiary. This will be in addition to the assets currently managed by Investissement Québec.

❑ **A regionalized development fund of at least \$500 million**

The government is consolidating the programs currently administered in the regions by Investissement Québec and the Ministère des Finances et de l'Économie under the authority of the Banque de développement économique.

■ **A tool for regional development**

The regionalized development stemming from this consolidation will total at least \$500 million annually. Additional funding could be made available beyond the existing \$500 million, as needs develop.

In addition to managing their envelope of the regionalized development fund, the regional divisions of the Banque de développement économique du Québec will assist clients with consulting services as their project progresses.

The Banque de développement économique du Québec will be responsible for various regional economic development initiatives put forward by the government.

■ **Economic diversification funds of certain regions**

When it took power, the government made difficult but necessary decisions concerning two controversial industries, nuclear power and asbestos. These decisions were arrived at taking the health and safety of Quebecers into consideration. For some regions, these decisions mean that it will be necessary to shift their economy to future-oriented sectors of activity.

Accordingly, the government intends to put in place, under the responsibility of the Banque de développement économique du Québec, take the measures needed to assist regions affected by the termination of asbestos mining and nuclear power generation.

- The government is announcing the creation of a \$200-million economic diversification fund for the Mauricie and Centre-du-Québec regions.
 - Working with the community's active forces, this fund will provide leverage to attract private investment and enable successful and innovative businesses to emerge that provide these regions with new vitality, in particular in the green economy sector.
- A similar fund is also being set up for the Asbestos region following the termination of the proposal to re-open the Jeffrey mine.
 - The fund will have a \$50-million envelope to support diversification projects in the region.

❑ **More power to the regions with regional economic development councils**

A new structure will be set up to offer more economic power to the regions.

■ **Membership**

The government is announcing the creation of regional economic development councils.

These boards will have from seven to eleven members, including:

- business people from the region, taking geographic representation into account;
- a representative of the Conférence régionale des élus;
- a representative of a local development centre;
- the regional manager of the Banque de développement économique du Québec.

■ **Role**

The role of these boards will be to:

- set economic development priorities for their region;
- issue opinions of regional relevance on activity sectors or industries;

This will provide the regions with additional power over the activity sectors and industries on which attention should be focused.

2.3 Sector-based actions

In the 2013-2014 Budget, the government is announcing the approach it is taking to define actions aimed at promoting and stimulating private investments in strategic sectors of Québec's economy.

Over the coming months, this approach will involve:

- the development of Northern Québec and mining production;
- the processing of natural resources;
- the development of green transportation and technologies;
- biopharmaceuticals;⁸
- energy;
- agriculture;
- tourism;
- the Gaspésie–Îles-de-la-Madeleine region;
- social economy.

2.3.1 The development of Northern Québec and mining production: a source of capital investment

Northern Québec and its mining resources represent a major economic potential for Québec.

□ The development of Northern Québec: the North for everyone

Québec must nevertheless develop its considerable resources in a responsible manner, by reconciling economic imperatives with environmental and social considerations.

Accordingly, the government intends to:

- guarantee that Quebecers obtain their fair share from the development of their resources;
- see to it that this development is carried on in a manner that is respectful of the population;
- ensure that respect for the environment is a concern for all the players involved.

⁸ For the purposes of this budget, the "biopharmaceutical industry" includes companies working in pharmaceuticals, biotechnology and research and clinical testing services.

Provided these conditions are met, development of natural resources will constitute a real asset for Québec. The government will encourage private investments in mining production.

To ensure that everyone profits from these resources, the government is committing itself to continue the efforts undertaken to develop the resources of Northern Québec, while also ensuring that this development is better coordinated and regulated for the benefit of local populations, in particular the First Nations and the Inuit.

□ **The creation of the Secrétariat au développement nordique**

To move forward with the development of Northern Québec, the government is announcing the creation of the Secrétariat au développement nordique.

The Secrétariat au développement nordique will be mandated with coordinating government efforts across-the-board in order to meet the needs of northern communities and thereby ensure coherent conditions for the development of Northern Québec.

Situated administratively in the Ministère du Conseil exécutif, the Secrétariat au développement nordique will be under the responsibility of the Minister of Natural Resources, supported in this task by the Minister responsible for the Côte-Nord region and the Nord-du-Québec region, the MNA for René-Lévesque and the MNA for Ungava.

The Secrétariat will rely on the existing consensus-building mechanisms to define the needs of northern communities. It will provide the necessary liaisons with departments and agencies to provide an appropriate follow-up to the requests that will be addressed to it.

The resources allocated to the existing transition office will serve as the basis for setting up the new Secrétariat. Funding for the Secrétariat au développement nordique will come from the existing Fonds du Plan Nord, out of the budgetary envelope initially provided for the creation of a government corporation.

■ **Promotion and management of economic projects: the Groupe d'action ministérielle**

Promotion and management of economic projects located in Northern Québec will be closely monitored by the Groupe d'action ministérielle, chaired by the Premier.

For this purpose, the action group will be able to rely on the teams and structures of the Ministère des Finances et de l'Économie, the Ministère des Ressources naturelles and the Banque de développement économique du Québec.

❑ **A consultation for review of the mining duties regime**

The government has committed itself to reviewing the mining duties regime, currently based on mining profit, in order to increase the revenues it generates.

To assist it in its reflection, the government will consult the industry as well as the stakeholders concerned by this issue. It will examine recent changes made to mining duties regimes in other jurisdictions.

Changes to the regime will be defined and implemented so as to augment revenues while encouraging economic development.

The Minister of Natural Resources will announce in the coming weeks the details of the consultation process that she intends to conduct.

The current Fonds du Plan Nord

The Fonds du Plan Nord was established within the Ministère des Finances et de l'Économie in June 2011.

- This special fund is dedicated, in particular, to funding strategic infrastructures, measures encouraging the development and the protection of Northern Québec, and social measures for local and aboriginal communities.

This fund was created to fund, wholly or partially, a number of initiatives in progress. Among them are:

- the construction of 300 social housing units in Nunavik;
- the creation of national parks, including the Assinica national park.

The Fonds du Plan Nord is primarily funded by a portion of the tax revenues generated by investments linked to current or planned projects in the territory.

To reflect changes in the projects undertaken in Northern Québec and the associated spinoff, the five-year allocation to the fund will be revised and placed on an annual footing.

- This revision to the fund, whose next fiscal year is scheduled to begin in the winter of 2013, will provide the opportunity to update the fund's financial framework and balance its expenses against the revenues that will be deposited in it.
- On completion of this exercise and once the available amounts are known, it will be possible to draw up a precise list of the initiatives to be funded in the coming year.

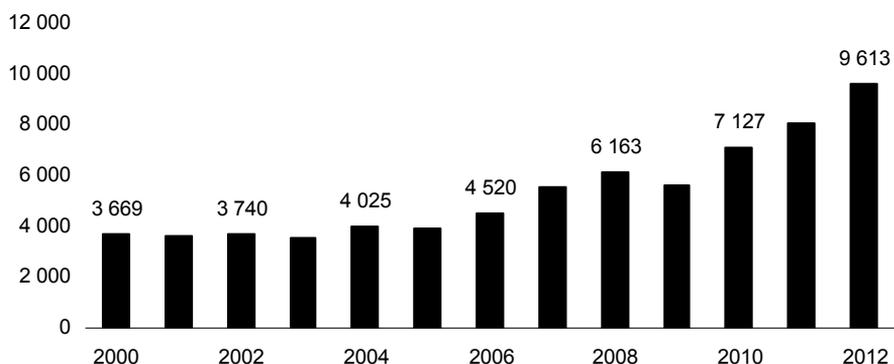
Mines: a source of capital investment

Extraction of natural resources is an important source of capital investment. Québec must bank on its assets in this area to stimulate private investments, while ensuring that its resources are developed in a sustainable manner.

In the past few years, mining production has increased considerably. This trend should continue in 2012, according to data based on production plans.

Minerals shipped⁽¹⁾ in Québec

(millions of dollars)



Note: 2011: provisional data; 2012: planned production.

(1) Mining shipments may be slightly different from mining production depending on variations in business inventory.

Sources: Institut de la statistique du Québec and Ministère des Ressources naturelles.

However, the mining industry is cyclical: it is heavily influenced by worldwide ore demand.

The slowdown in the growth of the Chinese economy since 2010, especially since the first quarter of 2011, the economic and financial difficulties in the Euro area and the tepid recovery in the United States have affected the market for raw materials. Since 2011, prices of metals produced in Québec have stagnated. Nevertheless, the outlook remains favourable in the medium term.

The effect of the economic situation is reflected in the projections for mining tax revenues in Québec. It is now expected that mining tax revenues will total \$1.6 billion from 2012-2013 to 2016-2017, which represents a 20% decline compared to projections dating from March 2012.

Projected mining tax revenues⁽¹⁾

(millions of dollars)

	2012-2013	2013-2014	2014-2015	2015-2016	2016-2017	Total
Current projection	245	260	385	330	330	1 550
Projection 2012-2013 Budget	355	375	395	405	415	1 945
DIFFERENCE	(110)	(115)	(10)	(75)	(85)	(395)

(1) These projections include royalties on mining operations and the credit on duties refundable for losses.

Conditions for government participation in mining projects when government support is requested

When government support is requested, the government will be able to negotiate an option on an equity interest in a mining project.

This option will be negotiated so that Québec derives the maximum economic spinoff from the development of its non-renewable resources.

The negotiation process will be comprehensive and companies will be informed at the outset of talks of the government's goal – to acquire an equity interest in their project. The size of the interest will depend on the incentives provided.

Construction of infrastructures and blocks of power

The government looks favourably on connecting mining projects to the Hydro-Québec power grid. However, promoters must be aware of the ground rules:

- Electricity must be normally priced at the marginal cost attributable to the mining project.
- The government will promote processing of our resources in Québec.

Construction of project-related infrastructures must be carried out in accordance with specific rules:

- Responsibility for project-related infrastructures lies with the company.
- The government may provide support for multi-use infrastructures, but in all such cases, rates will be payable for their use to ensure that the government recovers its contribution.

2.3.2 Developing Québec's natural resources through processing

Extraction of our mineral, forest and water-power resources must be an engine of development for Québec as a whole, particularly for the manufacturing sector.

This is why the government is committing itself to promoting local processing of these natural resources and the private investments that will make this possible.

☐ Mines

Thanks to the development of Northern Québec's natural resources, Québec is a player present in the nickel, zinc and iron markets, in particular. These metals are among the most sought after on the world market.

The government confirms the creation of the Capital Mines Hydrocarbures fund under the management of Ressources Québec, in particular, so as to participate in the development of Northern Québec in a spirit of transparency and respect for Québec society and the environment.

- Capital Mines Hydrocarbures will be under the responsibility of the Minister of Finance and the Economy, the Minister of Natural Resources and the Minister for Industrial Policy and the Banque de développement économique du Québec.
- The Capital Mines Hydrocarbures fund will have as its mission to profitably invest the funds allocated to it in equity interests in companies in the mining and hydrocarbon sectors.
- Capital Mines Hydrocarbures will have a budget envelope of \$750 million, \$500 million of which will be invested in equity interests in companies extracting mineral substances in Northern Québec.
- The government will set conditions on its investments.
- The government stresses that one of the objectives pursued by Capital Mines Hydrocarbures will be to promote increased processing of our resources in Québec. Ore processing in Québec will encourage the development of know-how, the hiring of workers in the regions and substantial local participation in value-added creation.
- The government will be a model of transparency:
 - A register of investments made during the fiscal year will be made public when the activities report of Capital Mines Hydrocarbures is tabled before the National Assembly.
 - The fund's books and accounts will be audited each year by the Auditor General, who will also verify compliance with its investment policies.

Metal processing

The THI will be beneficial for metal processing projects.

This initiative will thus provide encouragement for major investment projects involving primary, secondary or tertiary metal processing.

Description of the various steps in metal processing and eligibility for the THI

Steps in processing	Ore extraction and processing	Primary processing of metals	Secondary and tertiary processing of metals
Eligibility for the THI	Not eligible	Eligible	Eligible
Activities	<ul style="list-style-type: none"> Extraction - Blasting - Machine mining - Drilling Comminution - Crushing - Milling - Sieving Concentration - Gravity concentration - Magnetic separation - Electrostatic separation - Flotation 	<ul style="list-style-type: none"> - Alloying - Rolling - Drawing - Extruding - Smelting and refining⁽¹⁾ - Hydrometallurgy 	<ul style="list-style-type: none"> - Spinning - Milling - Forging - Stamping - Bending - Assembly - Food processing - Pharmacology
Products	<ul style="list-style-type: none"> - Concentrates - Iron ore pellets 	<ul style="list-style-type: none"> - Plates and sheets - Strips, rods, and bars - Wires and tubes - Anodes and cathodes - Ingots - Powders 	<ul style="list-style-type: none"> - Dietary supplements - Medications - Sheet metal and framing elements - Motors and turbines - Industrial machines - Batteries and electric accumulators

(1) Smelting or refining of ore extracted from a gold or silver mine is not eligible for the THI.

❑ Forests

Forests are one of Québec's most important resources: forests, 90% of them public, cover nearly half of Québec's territory. By itself, Québec holds 20% of Canadian forests and 2% of the world's forests.

■ Wood, a material of the future

Extraction of forest resources is a part of our future development. The government is particularly counting on increased use of lumber in construction, along with other materials, in line with the concept of the "right material in the right place."

Wood is a construction material of the future. The use of wood for construction falls right in line with a sustainable development approach, thanks to the environmental advantages associated with it.

- With respect to greenhouse gas emissions, wood products have the advantage of imprisoning carbon stored in trees during their growth.
- From the perspective of product life cycle analysis, wood products have a clear edge, in particular due to the fact that they require so little energy during manufacturing.⁹ Life cycle analysis takes into account environmental impacts at all stages, from production to destruction – or recycling – including product use.

Québec is developing ever more advanced know-how in the manufacture of ever more complex wood products that now lend themselves to use in a variety of infrastructures.

- Thanks to engineered wood, wood structures are being used around the world to build multi-storey residential complexes, large-area commercial or institutional buildings, and major projects.
- Even though such projects have been carried out in Québec in recent years, Québec lags behind compared to what is being achieved elsewhere.

■ A wood charter

To support the use of wood in construction, the government intends to rapidly adopt a wood charter, in addition to the measure to promote the use of wood announced in the 2012-2013 Budget.

- This charter will commit the various concerned partners to promote the use of this resource in all its forms and to encourage the use of wood in value-added products.

The government will particularly encourage the construction, as elsewhere in the world, of wood buildings having up to six storeys and, for that purpose, will ask the Régie du bâtiment to take action to facilitate the construction of such buildings.

⁹ *Report of the Working Group for Increasing the Use of Wood in Construction, February 2012.*

Development of wood-based products

The forest industry is a major economic anchor for the resource regions and many municipalities in Québec. So that the regions of Québec can take even greater advantage of the potential represented by the territory and its forest resources, Québec must be able to count on an innovative, efficient wood processing industry that is respectful of the environment. That is the backdrop against which the government is providing support for this industry to ensure its diversification, focused on the processing of value-added wood products.

2013-2014 Budget: new measures

In the 2013-2014 Budget, the government is announcing two major new initiatives to promote private investment that will help to sustain companies in the wood processing sector:

- a new tax holiday for large investment projects, the THI;
- extension and enhancement, through 2017, of the investment tax credit for manufacturing and processing equipment.
 - The tax credit rates applicable in the resource regions may be as much as 25% to 40%, depending on the region.

Support from Investissement Québec and the Ministère des Finances et de l'Économie

In addition to the new fiscal measures in the 2013-2014 Budget, the government is acting through current programs to financially support companies in the forest sector. In particular, these programs:

- support business investment projects through the ESSOR program and the Economic Development Fund. These funding initiatives are aimed at increasing productivity and diversification toward secondary and tertiary processing activities;
- grant funding for all stages in the development of businesses in this sector, through the program entitled UNIQ Financing;
- grant interim funding of up to 75% of the value of the tax credits of businesses. Investissement Québec intends to raise the maximum funding granted to companies in this sector to 85%.

Fonds Valorisation Bois

The Fonds Valorisation Bois is a limited partnership established through a partnership between the Québec government and the Fonds de solidarité FTQ. This \$170-million fund intervenes through capital stock or debentures. Its goal is to support, on a business basis, flagship companies of Québec industry in their development projects in sectors of the future such as green chemistry, green energies and green construction.

Thanks to this partnership between the Québec government and the Fonds de solidarité FTQ, already very active in the sector, forest companies will enjoy the simultaneous advantages of substantial funding and expertise in carrying out their investment projects.

❑ **Hydroelectricity**

Québec is one of the richest regions in the world in terms of fresh water: Québec's territory has over 130 000 watercourses and more than 40% of Canada's water-power resources.

- In 2011, 98% of Hydro-Québec's electricity production was generated by water power, a source of clean and renewable energy offering highly flexible operating conditions and producing very little greenhouse gas.
- By comparison, a coal-fired power plant produces 100 times more greenhouse gas per energy production unit.

Thanks to hydroelectricity, Quebecers enjoy the advantages of a reliable form of renewable energy, available at competitive prices and having limited environmental impact.

■ **Major industrial activity**

Québec's historic decision in favour of hydroelectricity has permitted the development of major industrial activity, established in the regions and based on the intensive development of electricity. Hydroelectricity has helped to create and maintain thousands of high-quality jobs throughout Québec.

The L rate offered to large electricity consumers is an important factor in site location decisions, giving Québec an edge over other jurisdictions. Competitive electricity rates thus encourage the processing of natural resources in Québec.

■ **Resources still to be developed**

The yet undeveloped water-power resources are considerable. A part of them must be developed in order to replace at least a fraction of the hydrocarbons we consume, reduce greenhouse gas emissions and create wealth in Québec.

The following basic criteria will be respected:

- current and future supply needs;
- long-term economic profitability;
- limited environmental impact;
- social acceptability.

■ **La Romaine**

Construction of the La Romaine hydroelectric complex is currently one of the major investments under way in Québec and for Canada as a whole.

- Commissioning of the La Romaine complex will extend over the period from 2014 to 2020.
- When completed, the project will increase Hydro-Québec's hydroelectric capacity by 1 550 MW.

The La Romaine complex will help to ensure Québec's long-term security in electricity supplies at a competitive price. The energy generated by the La Romaine complex will help to attract private investment for economic projects carried out in Québec.

2.3.3 The industrial strategy for green technology development and transportation

To support a vision of a strong and modern manufacturing sector, the government will bank on an industrial strategy for green technology development and transportation.

❑ A necessary change of course

The manufacturing sector is a pillar of our economy and a symbol of Québec's inventiveness. Of course, the manufacturing sector includes large businesses that provide employment for many workers, but it also includes numerous SMEs that contribute, throughout Québec, to the vitality of the regions and that are seeking to make their mark in a highly competitive international context.

This manufacturing sector has weathered many storms in recent years, to the point that some now view it as outdated and doomed to decline. A change of course is absolutely essential if we are to restore manufacturing to its rightful place in our economy.

The industrial strategy for green technology development and transportation will help to revitalize Québec's manufacturing sector.

❑ Relying on niches of excellence

The strategy will rely on niches of excellence already developed in Québec, particularly green technology development and transportation.

- Québec already has numerous businesses in the transportation sector. These companies build trains, buses, aircraft, subway cars or automobile parts, particularly for electric vehicles.
 - With the substantial investments that Québec intends to make in mass transit, all the conditions are right for the emergence of a strong industrial segment in the transportation field.
- The same is true for the environmental technologies and clean energy sector, thanks, in particular, to our vast potential for the development of renewable energies.

❑ **A \$200-million fund for transportation electrification and green technology development**

A \$200-million fund will be set up to support the manufacturing sector in its development efforts, particularly in the sector of green technology development and transportation.

The purpose of this fund will be to develop strategic Québec networks able to take advantage of business opportunities resulting from the adoption of new environmental practices around the world.

— We must increase our capacity to develop cutting-edge technologies, particularly green technologies, for the benefit of people and businesses and to export our know-how.

In particular, the sums reserved for the fund will be used to:

- support the development of new green technologies and clean energies, including bioenergies;
- intensify efforts to electrify passenger and freight transportation;
- promote the adoption of new processes and technologies that reduce businesses' carbon footprint.

An envelope of \$80 million will be drawn from the non-committed funding of the Green Fund for the 2006-2012 Climate Change Action Plan. The other non-committed sums will be set aside for initiatives by the Ministère du Développement durable, de l'Environnement, de la Faune et des Parcs.

Also, an envelope of \$120 million will be drawn from the upcoming 2013-2020 Climate Change Action Plan.

These sums will be used to fund initiatives aimed at reducing greenhouse gas emissions.

As in the case of all initiatives aimed at combatting climate change, the Minister for Industrial Policy and the Banque de développement économique du Québec and the Minister of Sustainable Development, Environment, Wildlife and Parks will reach a funding agreement specifying the purposes for which the sums drawn from the Green Fund are to be used.

The details of the industrial strategy, as well as the terms and conditions of funding for the \$200-million fund, will be announced at a later date by the Minister for Industrial Policy and the Banque de développement économique du Québec.

2.3.4 Investment in the biopharmaceutical sector

The global biopharmaceutical industry has profoundly changed its business model in recent years.

The industry is gradually abandoning its traditional approach, based on integrating research and development activities within its businesses, in favour of other approaches focusing more on outsourcing research activities. The reduction in R&D spending by biopharmaceutical companies is a result of this new approach.

The Québec government must adapt its support for this sector to the new context, with the ongoing objective of fostering research in Québec.

■ The Forum permanent d'échanges

At the outset, the government is undertaking to maintain a dialogue with the biopharmaceutical industry through the Forum permanent d'échanges.

This forum brings together players from Québec's life sciences sector, the Ministère des Finances et de l'Économie, the Ministère de l'Enseignement supérieur, de la Recherche, de la Science et de la Technologie and the Ministère de la Santé et des Services sociaux.

The Forum's objective is, among others, to propose solutions fostering the sustainability of the health system and the development of pharmaceutical research in Québec.

❑ Two significant measures

As part of Budget 2013-2014, the government is announcing two significant measures respectively targeting those businesses that continue to follow the in-house R&D approach and those that adopt new strategies.

They are:

- the increase from 17.5% to 27.5% in the rate of the refundable tax credit for R&D salary in relation to biopharmaceutical activities;
- \$125 million in matching funding for private-public research partnerships.

Other initiatives have already been taken to respond to the ongoing transformations, with the government announcing the elimination of the 15-year rule.

TABLE 4

Cost of new measures in support of the biopharmaceutical sector (millions of dollars)

	2013-2014	2014-2015	2015-2016	2016-2017	2017-2018
Increase from 17.5% to 27.5% in the rate of the refundable tax credit for R&D salary in relation to biopharmaceutical activities	20	25	25	25	25
\$125 million in matching funding for private-public research partnerships ⁽¹⁾	25	25	25	25	25
TOTAL	45	50	50	50	50

(1) Funds for this initiative will be drawn in 2013-2014 from the Economic Development Fund. As of 2014-2015, it will be funded within the government's spending objective.

❑ **Continuing traditional support: increase from 17.5% to 27.5% in the rate of the refundable tax credit for R&D salary in relation to biopharmaceutical activities**

Despite the biopharmaceutical industry's move to new approaches, biopharmaceutical companies continue to directly carry out substantial research activities in Québec. They must continue to be supported.

To foster the R&D activities of these companies in Québec, the government is announcing an improvement to the tax credit for R&D salary for biopharmaceutical companies.

Briefly, a company that carries out its R&D activities itself can claim a refundable tax credit on the salaries of its researchers or on 50% of the amount of a subcontract entered into with another company.

— The rate of the tax credit for R&D salary varies between 17.5% and 37.5% depending on the size of the business and the amount of spending incurred.

The government is enhancing, for five years, the tax credit for R&D salary for biopharmaceutical companies that carry out R&D activities in-house or award R&D subcontracts in Québec.

— More specifically, the rate of the tax credit will rise from 17.5% to 27.5% for companies that hold an initial certificate issued by Investissement Québec.

— Investissement Québec may consult the Ministère de l'Enseignement supérieur, de la Recherche, de la Science et de la Technologie.

TABLE 5

Improvement to the tax credit for R&D salary in the biopharmaceutical sector

Businesses	Rate before Budget 2013-2014	Rate after Budget 2013-2014
SME:		
– Business with assets of \$50 million or less		
▪ First \$3 million of eligible spending	37.5%	37.5%
▪ Eligible spending in excess of \$3 million	17.5%	27.5%
– Business with assets greater than \$50 million but less than \$75 million		
▪ First \$3 million of eligible spending ⁽¹⁾	Between 17.5% and 37.5%	Between 27.5% and 37.5%
▪ Eligible spending in excess of \$3 million	17.5%	27.5%
Large businesses:		
– Business with assets of \$75 million or more		
▪ All eligible spending	17.5%	27.5%

(1) Straight-line reduction of the rate according to the assets of the business.

This improvement will be effective for R&D spending incurred after the day of the 2013-2014 Budget Speech and before January 1, 2018.

- It will be of particular benefit to large biopharmaceutical companies that carry out R&D in Québec. These companies already account for a substantial share of all the R&D spending in this activity sector.
- Small biopharmaceutical companies operating in Québec may also benefit, indirectly, from this improved tax assistance, in particular through more subcontracts awarded to them.

Some 60 companies in the biopharmaceutical sector may benefit directly from this improvement.

The financial impact will be:

- \$20 million for 2013-2014;
- \$25 million in 2014-2015;
- \$25 million in 2015-2016.

❑ **\$125 million in matching funding for private-public research partnerships**

One of the new approaches the biopharmaceutical industry has adopted involves entering into private-public partnerships to accelerate development of new drugs by fostering the move from research to application and by sharing know-how and advanced infrastructures.

Two examples in the United States illustrate this approach.

- The California Institute for Biomedical Research (Calibr) is a non-profit organization working to accelerate the transition from research to commercialization. University researchers have funding of \$90 million over seven years, provided by the pharmaceutical company Merck, to secure resources and know-how to optimize the potential of their discoveries.
- The Center for Therapeutic Innovation (CTI), in Boston, is a model of cooperation between Pfizer and public research centres. The objective is to accelerate drug development and facilitate the transfer of research for incorporation into the health system. Projects that are selected are developed collaboratively by researchers at Pfizer and research centres. Pfizer plans to invest \$100 million in this initiative over five years.

Québec can also look to its well-known research centres to establish financial partnerships with the private sector and thus contribute to its reputation abroad.

- There are three university research hubs in Québec – Montréal, Québec City and Sherbrooke – and four faculties of medicine, each of which is associated with a hospital research centre.
- Montréal's large hospitals (Centre hospitalier de l'Université de Montréal, McGill University Health Centre) help bring together a large number of researchers as well as patients for clinical studies, and attract new international financial partners.
- Québec also has many high-level research centres that can work with biopharmaceutical companies.

With many organizations involved in life sciences, including the Montréal InVivo industrial cluster that fosters networking among the various players in the field, Québec intends to continue playing a major role in Canada in life sciences.

■ The measure

Funding of \$125 million will be put in place for research partnership projects with pharmaceutical companies in the major areas of Québec's strengths.

- The objective is to support a few targeted organizations with an international reputation, in particular specialized hospital and university research centres, that can attract substantial investments to Québec.
- This initiative complements existing measures and will help fund large-scale projects in partnership with the pharmaceutical industry.

Proposals will be sought to identify the most structuring projects for the industry in Québec. Projects will have to attract funding from at least one private partner.

This measure is consistent with the new national research and innovation policy designed to increase public and private investment in research and development.

Québec will promote its know-how in life sciences through these partnerships between the private and the public sectors.

The details of this measure will be announced at a later date by the Minister for Industrial Policy and the Banque de développement économique du Québec and by the Minister of Higher Education, Research, Science and Technology.

❑ **Complementary initiatives to support the industry's new approaches**

The global biopharmaceutical industry is making increasing use of two other approaches to outsource its R&D activities, i.e. setting up precompetitive research consortiums and pooling competitive research.

In both cases, initiatives are underway in Québec to support the industry.

■ **Precompetitive research: the Consortium québécois sur la découverte du médicament**

The purpose of precompetitive research is to develop tools for shared use by pharmaceutical companies, in particular computer tools to better manage knowledge or biomarkers to validate a molecule's efficacy and safety. The industry participates in the funding of this type of research.

- One example is the Innovative Medicines Initiative (IMI). Set up by the European Union, it fosters the development of general use tools in particular by focusing on managing knowledge and information and on the safety of drugs.
- The objective of the initiative is to make the European pharmaceutical sector more competitive for the benefit of patients and scientists.
- The European Union is investing €1 billion, which is matched by a contribution in kind by large pharmaceutical companies.

In the same way as the Innovative Medicines Initiative, the Consortium québécois sur la découverte du médicament, formed in 2008, is already active in precompetitive research.

- Projects funded by the Consortium québécois sur la découverte du médicament seek to develop innovative technologies and tools to accelerate the drug discovery process.
- Since its creation, the Consortium québécois sur la découverte du médicament has received funding of \$42 million, including \$25 million from the governments of Québec and Canada, and \$17 million from pharmaceutical companies.

■ **Pooling competitive research: the investment in the Institut NéoMed**

The industry is also forming competitive research consortiums to reduce the R&D risk by pooling certain investment efforts.

- As an example, the Centre for Drug Research and Development, in British Columbia, is seeking to reduce R&D risk at the preclinical level through public funding.
- The Centre is working with public partners (research institutes, universities, Canadian health agencies). It also has agreements with private companies (Roche, Merck).
- The government of British Columbia recently announced a \$29-million grant to the Centre for Drug Research and Development, adding to its initial contribution of \$25 million in 2007.

Québec is also helping the biopharmaceutical industry by supporting the formation of a competitive consortium. The Québec government will contribute to the funding of the Institut NéoMed, in cooperation with large pharmaceutical companies.

The Institut NéoMed seeks to:

- develop new drugs starting from the best projects put forward by researchers and university research commercialization firms or from molecules brought by large pharmaceutical companies.
- bring molecules to a stage of development sufficient for purchase by pharmaceutical companies.
- form research partnerships with other organizations.

The details of this measure will be announced at a later date by the Minister of Finance and the Economy and by the Minister for Industrial Policy and the Banque de développement économique du Québec.

□ **Elimination of the 15-year rule**

The 15-year rule, implemented in 1994, fostered the growth of the life sciences industry in Québec.

- The 15-year rule authorizes reimbursement of an innovative drug by Québec's public prescription drug insurance plan for a period of 15 years, even if an equivalent and less expensive generic drug is available.
- This measure fostered a significant increase in R&D spending in Québec and, consequently, the creation of many science-focused and well-paid jobs.

Now that the biopharmaceutical industry is adjusting its business model, the 15-year rule is no longer producing the expected results regarding research in Québec.

Consequently, the Québec government is announcing the elimination of the 15-year rule. This elimination goes hand in hand with the new support measures implemented to better to the business model of biopharmaceutical companies and ensure that public assistance is truly used to support research carried out in Québec.

It should be pointed out that in the course of the negotiations on the Comprehensive Economic and Trade Agreement between Canada and the European Union, Canada could amend its provisions relating to intellectual property and extend their scope.

The Québec-Ontario Life Sciences Corridor

On June 27, 2011, the Québec and Ontario governments set up the Québec-Ontario Life Sciences Corridor to create one of the largest clusters in this sector in North America.

In accordance with the Québec-Ontario Trade and Cooperation Agreement, the Corridor helps eliminate trade barriers and foster prosperity in both jurisdictions.

Pooling resources in these jurisdictions involved in research, innovation and commercialization in life sciences opens the door to new opportunities for investment, partnership and cooperation.

A Québec-Ontario venture capital fund

The two public partners have already discussed the formation of a \$250-million venture capital fund with the governments of Québec and Ontario and pharmaceutical companies as partners.

The objective is to equip Québec and Ontario with a large venture capital fund in the life sciences sector, supporting the development of a mutually beneficial Québec-Ontario corridor.

The government is confirming its interest in participating in the implementation of a venture capital fund in partnership with the Ontario government and private sector partners.

2.3.5 The new energy policy

The government is committed to moving Québec towards energy self-sufficiency through a new policy that, in particular, will set targets for the development of renewable energy opportunities.

- This energy self-sufficiency will be achieved in particular by fostering public transport and electric transport. The actions the government is announcing to encourage the development in Québec of a sustainable transportation industry will help achieve this objective.
 - By reducing our dependence on oil, Québec will achieve the two-fold objective of increasing its wealth and reducing its greenhouse gas emissions.
- Nonetheless, Québec cannot, at least in the foreseeable future, completely do without petroleum products. However, Québec has significant oil potential that the government wants to develop, using best practices regarding environmental protection and social acceptability. In doing so, Québec will reduce its dependence on oil imports accordingly.

Consultations and analyses will be carried out in the near future to formulate this policy. The details of this strategy will be announced by the Minister of Natural Resources.

2.3.6 The food sovereignty policy

Agriculture is of great importance to Québec. Not only does it feed Quebecers, but it also supports a significant part of Québec's economy and its regions.

- The biofood industry accounts for 7% of Québec's GDP.
- This industry employs more than 476 000 workers in every region of Québec, including tens of thousands who work directly in agriculture.

In many regions, the biofood industry is central to economic life: in 14 of the 17 administrative regions, the industry accounts for one in every ten jobs.

The food processing, beverage and tobacco sectors account for 15% of manufacturing activity in Québec. Together they are Québec's largest manufacturing employer, sustaining almost 65 000 jobs.

- Québec's food processing companies play an important role in supporting agriculture and fisheries by purchasing almost 70% of their output.

Benefit from the outlook for the future

The government wants to revitalize agriculture and, in particular, family farms in Québec. This will be achieved through the support offered to producers and the special attention paid to succession.

- The government will provide financial tools tailored to the food processing sector in order to export Québec products abroad.
- World demand for food products is forecast to grow and diversify. Québec is well placed to benefit from these promising markets and the future that is taking shape.

By putting food sovereignty at the heart of its policy, the government intends to encourage farm producers and businesses throughout the biofood industry, support job creation and increase the share of Québec products on our plates.

The details of these measures will be announced shortly by the Minister of Agriculture, Fisheries and Food.

2.3.7 The tourism development plan

Tourism is an important industry for Québec. It provides the world with an opportunity to get acquainted with our culture, our scenery and our heritage. It also contributes to Québec's international reputation and helps attract investments that is essential to reducing our trade deficit.

- In 2011, Québec welcomed roughly 8 million visitors from outside its borders. They spent about \$3.6 billion in Québec.
- These figures make tourism Québec's fourth largest export product.

Québec's tourism sector is operating in a fluid global context. The tourism offering is diversifying, with the emergence of new, formerly marginal, destinations like Asia, the Middle East and Eastern Europe. These destinations are attracting tourists with a new and different tourism experience, at competitive prices.

Québec has resources to set itself apart from international competition. In that regard, the Québec government will ensure that Montréal and Québec City, our two largest gateways for international visitors, continue to capitalize on their capacity to attract. In addition, the government will focus on the tourism potential of the St. Lawrence and the regions.

❑ Invest to stand apart

In this new environment, and to stand apart, Québec must offer a distinctive, high-calibre product that inevitably requires investment and innovation by businesses in the sector for its development.

- The tourism sector is frequently seasonal. It is subject to various cyclical vagaries – economic conditions, climate conditions, etc. – in addition to dealing with a degree of workforce turnover. Many tourism businesses have difficulty obtaining financing, because they are seen as risky by lenders and investors.
- Since 2007, the level of private investment in sectors linked to tourism has fallen by 17.1%, at a time when Québec should be investing to renew its offering.

❑ A tourism industry development plan

To stimulate private investment, foster business growth and encourage innovation and the adoption of better business practices, a strategy for the implementation of the tourism industry development plan will be brought forward and unveiled by the Minister for Tourism.

To support the development of a successful tourism industry based on competitive businesses, the government will improve the business environment by maintaining and simplifying the financial tools included in the development plan, which will help renew our tourism offering.

2.3.8 Funding of \$6 million for Gaspésie and the Îles-de-la-Madeleine

For many years, the region of Gaspésie–Îles-de-la-Madeleine has experienced economic difficulties, its industrial base has been weakened because of the closing of many of the region’s large businesses.

- While the economic situation is gradually improving, it remains worrisome. Accordingly, the economic vitality of local communities must be supported to avoid other closings and an exodus of workers.

The Comité ministériel de la Gaspésie–Îles-de-la-Madeleine has been set up to take the specific situation of Gaspésie and the Îles-de-la-Madeleine into account.

- Chaired by the Premier, this committee has been mandated to formulate a development plan for this region. It must also ensure that government policies and actions in this territory are coordinated and consistent.

To sustain the economic diversification of the Gaspésie–Îles-de-la-Madeleine region and implement a development plan for the region, the government is announcing that funding of \$6 million is being provided for 2013-2014.

- The purpose of this funding will be to deal with the problems specific to the Gaspésie–Îles-de-la-Madeleine region through concrete and tailored solutions.

2.3.9 Framework legislation to recognize, promote and develop the social economy

Businesses in the social economy have great potential. Their contribution to our prosperity is often under-estimated. They are a significant form of entrepreneurship.

- Entrepreneurship is at the core of a dynamic economy that creates employment and wealth. It is also the concrete expression of Quebecers’ genius and creativity.
- This entrepreneurship takes many forms and the government acknowledges the contribution to the economy of all forms of businesses.

Accordingly, the government’s commitment to entrepreneurship will target not only businesses in the traditional economy, but also cooperatives that have long been an integral part of Québec’s development, as well as all the businesses of the social economy that contribute, day in and day out, to the development of our communities.

To give concrete form to this commitment to the social economy, the government will adopt framework legislation to recognize, promote and develop it.

2.4 Structural policies

In addition to sectoral actions, the government is taking a structural approach, defining comprehensive policies and strategies concerning:

- workforce training;
- research and innovation;
- external trade;
- reducing red tape.

2.4.1 A qualified and educated workforce

To encourage investment projects, Québec must be able to count on a workforce that is qualified and sufficiently large.

Special efforts will be made in three directions:

- The effort begins at daycare and kindergarten where the most effective tools for preventing future citizens from dropping-out and giving them a chance are found.
- Québec will meet the demand among businesses for qualified workers by encouraging as many young people as possible to continue studying at the secondary and post-secondary level. Obtaining a secondary school diploma is the first step towards better job opportunities.
- We must be assured that everyone who wants to enter the labour market can indeed do so.

In addition, the value of vocational training must continue to be recognized to capitalize on the needs of businesses.

Daycare spaces and kindergarten at age 4

To achieve our objectives, students must have the appropriate resources, beginning in early childhood. Prevention at an early age is one of the success factors in fostering student retention. To that end, the government relies in particular on the network of educational childcare services to provide children with an environment conducive to development.

- The government will make 28 000 daycare spaces available within four years.
- To achieve the same goal, the government will offer access to kindergarten at age 4 to disadvantaged children through a multiplicity of projects.

With these two initiatives, the government's aim is that the proportion of children age 4 attending state-controlled educational and daycare services rise to 90%, within five years, as recommended by the Conseil supérieur de l'éducation.

❑ **Support adapted to learning**

Apart from prevention, our young people must also be able to rely on constant assistance when they need it as well as adapted learning solutions.

For this reason, the government will pay particular attention to classroom support for children with special needs or difficulties.

— Accordingly, many hundreds more professionals will be available to primary schools to support and assist our children when they need it.

❑ **University education**

To continue nurturing the development of a knowledge-based society, the government wants to maintain and expand access to quality higher education for everyone.

Accordingly, the government is inviting Québec society as a whole to participate in a wide-ranging reflection on the future of our higher education institutions, in particular their role and mission in teaching, research and contribution to society. This consultation of partners and the public will prepare the way for *Sommet sur l'enseignement supérieur*, scheduled for early 2013.

Fostering the education of its people and opting for innovation to generate, transmit and disseminate knowledge is, in the current global context, a strategic choice and a powerful engine of economic and social development for Québec.

❑ **Participation of everyone in the labour market**

Québec is facing the rapid aging of its population and, consequently, a reduction in the number of people of working age. In addition to the reacting to the growing scarcity of workers, the skills of the unemployed and workers must be developed to so they are better matched to the needs of the labour market.

Accordingly, we must encourage all Quebecers, especially young people, immigrants, experienced workers, handicapped persons and recipients of last-resort financial assistance, to participate more fully in the labour market.

Maximizing the entry of such persons in the labour market is a challenge Quebecers must meet for the benefit of Québec society as a whole.

We must also act more intensely in continuing education and basic education, including literacy, in particular among unskilled workers. In this context, the Ministère de l'Emploi et de la Solidarité sociale has begun working on proposals for action in this regard.

Lastly, the Minister of Labour, and the Minister of Employment and Social Solidarity, will introduce within the next few months, new policy directions regarding support for persons in poverty, single persons in particular, to ensure that they have the minimum resources to participate in Québec's social and economic life.

2.4.2 The national research and innovation policy

The government wants to make Québec one of the most innovative societies in the world – a society that allocates at least 3% of its GDP to investment in research and development.

To that end, it is important to marshal all players in the field for the advancement of knowledge in Québec, to foster its dissemination and sharing. We must continue to build a knowledge-based society and so acquire the best ways to:

- better respond to many social issues, in particular the aging of our population;
- imagine new ways to live together as citizens and allow our culture to shine;
- ensure that Québec's economy continues to grow by becoming ever greener and more sustainable.

The policy

The government will soon announce a national research and innovation policy.

- It will seek participation by educational institutions, the scientific community, socioeconomic stakeholders and citizens;
- Its objective, among other things, will be to capitalize on the results of public research for all Quebecers.

This policy will help some 78 000 students, researchers and professors for whom research is an essential activity to sign up for and participate in global innovation networks, to benefit from the emergence of new knowledge.

It will bring private and public organizations and businesses to participate more actively in research and innovation, in particular by forming direct partnerships with research organizations.

The Minister of Higher Education, Research, Science and Technology will reveal the details of the national research and innovation policy at a later date.

2.4.3 The development of external trade and support for Canada-European Union free trade

If our economy is to grow sustainably, it is essential that businesses be encouraged to target external markets.

The government will take the actions needed to:

- develop commercial relations based on more open markets and free flow of goods and services;
- support businesses in their efforts to diversify markets.

☐ Active participation in the negotiations between Canada and the European Union

It is important to remove obstacles to international trade through the multilateral negotiations of the World Trade Organization or regional bilateral free-trade agreements such as NAFTA.

Over the past 20 years, the expected gains from NAFTA have mostly been achieved. Québec must now find new sources of growth.

In that regard, negotiations on an economic and trade agreement with the European Union and its 500 million consumers are an attractive possibility for our businesses.

That is why the Québec government is participating actively in the negotiations seeking to reach an agreement with the European Union in the near future.

☐ An external trade development plan

Increasingly fierce competition from emerging economies is forcing Québec to consolidate its position on its traditional export markets, including the United States, and improve its position on new markets.

Québec must also capitalize on its strategic geographic position to be a choice destination for foreign capital.

- Québec has many strengths to encourage businesses to locate here, including its quality workforce, research infrastructures, clean and competitively-priced electricity and proximity to the United States.

The government intends to implement an external trade development plan to attract international investment and give exports a boost.

The Minister of International Relations, La Francophonie and External Trade will announce the external trade development plan at a later date.

The importance of relations between Québec and the United States

In the most recent economic analysis review published by the Mouvement Desjardins, the authors provide a detailed picture of relations that bind Québec and the United States.

Trade relations with the United States

Québec's trade relations with the United States are of crucial importance. The proximity of the United States, more specifically the markets of the American Northeast, fosters trade, while the size of the U.S. economy makes it a preferred destination for Québec.

Over the past decade, the bursting of the technology bubble, the Canadian dollar's appreciation relative to the U.S. dollar, the tremulous economic situation, the dismantling of the Agreement on Textiles and Clothing as well as the collapse of the housing market have all contributed to slowing Québec's exports to the United States.

However, the coming years look brighter for Québec's exports. The gradual recovery of the U.S. economy should foster outlets for exports of Québec's goods and services. Québec's intention to conquer new markets will help return to more sustained export levels. The authors believe that the United States will remain a preferred partner of Québec.

There are, however, major challenges because of increasingly fierce competition from emerging countries and the implementation of protectionist measures (Buy American, mandatory country-of-origin labelling, etc.). Québec companies will therefore have to work harder to improve productivity in order to compete more effectively with emerging countries, and focus more on exporting distinctive and innovative products and services.

Other facets of Québec-United States relations

Our relations with the United States go beyond the purely economic. Tourism, alliances between universities, various business partnerships, security and investments on both sides of the border are all ways to develop links between Québec and the United States. Indeed, energy and environmental concerns are inseparable from our good relations with the United States.

Source: DESJARDINS, *Perspective – Economic Analysis Review, Québec–United States Special*, volume 22, Fall 2012.

2.4.4 Reducing red tape

Regulation is essential for the government to carry out its mission. However, the government must ensure that the guidelines imposed on businesses do not form an obstacle to entrepreneurship and private investment. Regulatory compliance must also be as simple and inexpensive as possible.

Recommendations to be implemented

Accordingly, it is important to continue working to reduce the burden of red tape on businesses.

The government will implement the 63 recommendations of the report of the Groupe de travail sur la simplification réglementaire et administrative entitled *Simplifier et mieux réglementer*.

The government will thus help reduce the burden of red tape on businesses, and to develop a more favourable and more competitive business climate.

Simplify and regulate better

Part 1: Regulate better

Five recommendations concern a review of the Politique gouvernementale sur l'allègement réglementaire et administratif.

Part 2: Limit the burden of red tape

Five recommendations relating to the objective of reducing the cost of administrative formalities by 20%.

Part 3: Concrete proposals affecting all businesses

In all, 44 recommendations concerning online administration, tax administration, environmental compliance, administrative formalities in the labour and workplace field, modernization of requirements regarding the sale of alcohol and delivery of services to businesses and the reorganization of government assistance measures.

Part 4: Make it easier to start a business

Nine recommendations to simplify registration with government organizations of businesses in the start-up phase and improve assistance for entrepreneurs.

Source: GROUPE DE TRAVAIL SUR LA SIMPLIFICATION RÉGLEMENTAIRE ET ADMINISTRATIVE, *Simplifier et mieux réglementer*, [Report], December 2011.

CONCLUSION

In Budget 2013-2014, the Québec government is laying out its economic vision, based on stimulating and promoting private investment.

❑ A conviction

Growth of private investment will increase productivity and therefore the standard of living of Quebecers. Private investment will foster an improvement in our ability to compete, and a recovery in exports. Thanks to private investment, we will be able to innovate more and improve workforce training.

The data that have been presented clearly show that Québec has yet to achieve its full potential regarding private investment. Had private investment the same relative importance in Québec as in Canada as a whole, it would be 33.5% greater, i.e. \$10 billion more than the actual amount.

Now is the right time to act: businesses have rebuilt their financial reserves and a helping hand may encourage them to act in an international economic context that remains tepid.

❑ Major initiatives

It is therefore time to move and, accordingly, the government is taking major initiatives.

- The government is immediately enacting two “one-two punch” initiatives to quickly stimulate investment, i.e. a new 10-year tax holiday for large investment projects, the THI, and the extension and improvement until 2017 of the tax credit for investments.
- The government is introducing new tools to sustain private investment in the field, in particular with the creation of a powerful organization focused on such support, the Banque de développement économique du Québec.
- The government is announcing its future initiatives to promote private investment in strategic sectors of our economy.
- Lastly, the government is completing this sectoral approach with a structural approach, by defining comprehensive policies and strategies announced for the coming months.

Convinced that private investment is the key to our future prosperity, the government is thus marshalling the resources necessary for Quebecers to achieve this prosperity. This resolute pro-investment action will be carried out in an economy where the business environment has been cleansed, satisfying the requirement of integrity that the government has made its absolute priority.

