Québec
focus on jobs

Shaping an innovative economy

Increasing Private Investment

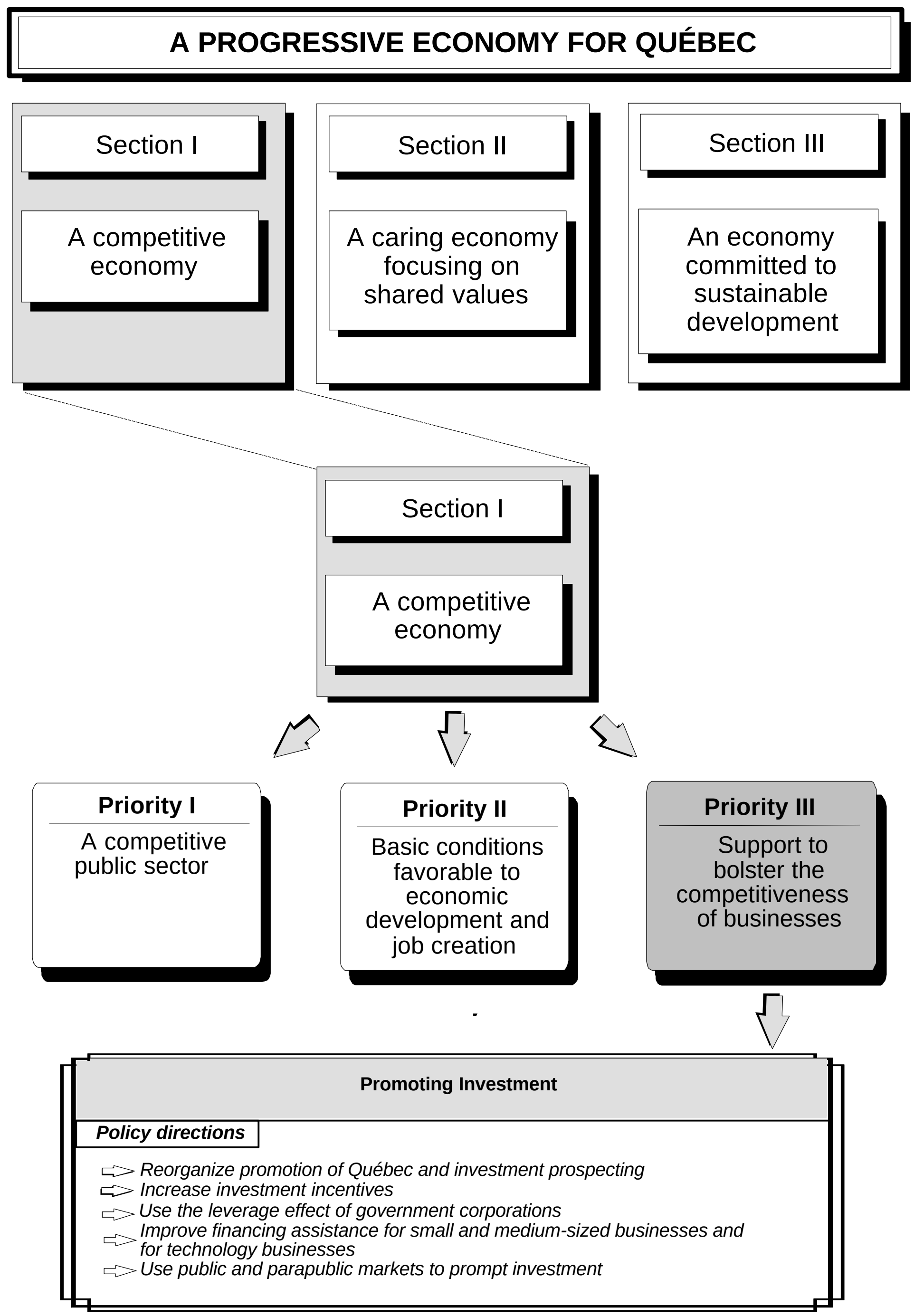
An economic development strategy for job creation

Gouvernement du Québec
Ministère des Finances

FOREWORD

The paper on investment is part of the *Economic Development Strategy for Job Creation* made public at the time of the 1998-1999 Budget Speech.

It focuses on Section I and Priority III of this strategy.



SUMMARY

1. BUSINESS INVESTMENT: A STRATEGIC ISSUE

Increased employment is one of the government's key concerns, and investment is an essential determining factor in our economy's ability to generate jobs. Despite the growth in various cutting-edge sectors, Québec's private investment rate clearly needs to be improved.

The government therefore introduced, in the March 1997 Budget Speech, the Private Investment Promotion Plan (PIPP). PIPP was designed to facilitate $4.2 billion in new private investment over a period of 18 months. After only a year, over 90% of the objective had already been reached, representing the creation of over 15 000 jobs.

Because of all that is at stake, the government is proposing an ambitious plan designed to stimulate more investment and job creation. It aims high: private investment totalling $19 billion over the next five years.

2. IMPROVED PERFORMANCE BY GOVERNMENT CORPORATIONS

Among the main measures, the government will do its utmost to maximize the strategic leverage effect of the government investment and venture capital corporations in order to allow them to reach $11.7 billion in investments in the next five years in partnership with the private sector. With these investments, the private sector will be left in charge of the projects. In addition, government corporations will play their part on a business basis; they will only acquire minority holdings (50% or less) and will need to provide for disposal of their investment at the opportune moment.

Reorganization of government investment corporations vital

The corporations referred to as "government investment corporations" are: the Société générale de financement du Québec (SGF), the Société québécoise d’initiatives agro-alimentaires (SOQUIA), the Société québécoise d’initiatives pétrolières (SOQUIP), the Société de récupération, d’exploitation et de développement forestiers du Québec (REXFOR), and the Société québécoise d’exploration minière (SOQUEM).

The way these government corporations are organized should be altered in order to improve on intervention cohesion. Competition and market globalization are also changing how businesses are organized. Major players are required to be competitive on an international scale or to negotiate with partners of the same caliber.

Given this, the government will consolidate government investment corporations in a holding-type structure. In practical terms, SOQUEM, SOQUIA, SOQUIP and REXFOR will become part of the SGF and will be consolidated with the investments it holds in the same sectors, to form affiliated entities.

The new SGF will therefore become the Québec government's main interlocutor for private investors who want to carry out projects in partnership. Overall, its objective is to generate total investments of $10 billion within the next five years in ten sectors. To achieve this objective, the government will add $2 billion to the SGF's capital stock.

Innovatech corporations: technology investments of $1.6 billion to be invested in technology by the year 2002

The Innovatech corporations are doing remarkably well. Their financial base will be reinforced by changing them into capital stock corporations and eliminating the sunset clause which set their end of their operations for March 31, 2000. The corporate mandate to support the start-up of technology businesses will be maintained.

In addition, a fourth Innovatech corporation devoted to regional resources will be formed for the purpose of heightening the Innovatech profile in the regions.

All of the changes to the Innovatech corporations should allow them to support technology projects representing total investments, in partnership with the private sector, of nearly $1.6 billion over the next five years.

SODEC: supporting new niches for the distribution of cultural products

The Québec government has always provided a great deal of support for culture. The action of the Société de développement des entreprises culturelles (SODEC) supplements that of financial institutions. So that it can heighten the profile of Québec's cultural products internationally and respond more effectively and flexibly to the needs expressed by its clients, SODEC will be equipped with new intervention and financial tools. It will have as much as $20 million at its disposal for forging ahead with the many projects planned.

Diversification of the SDBJ's mandate

The Société de développement de la Baie James (SDBJ) will be restructured so that it can participate jointly with the private sector in regional economic diversification projects on the territory it serves. As much as $40 million in private investment is expected over the next five years.

Hydro-Québec dividends to fuel economic development

The government investment and venture capital corporations, particularly the SGF, will have major financing requirements over the next few years. Furthermore, Hydro-Québec is planning on increasing its future profitability appreciably, which will mean that it will pay dividends to the government. A portion of Hydro-Québec's dividends will be reinvested in government investment and venture capital corporations in order to enable them to undertake investment projects that create jobs in partnership with the private sector.

The government is changing how the economic development tools at its disposal are used. In asking Hydro-Québec to confine itself to its business plan objectives, the government will be freeing up the funds needed for the other government corporations to increase investment in Québec substantially.

3. CREATION OF INVESTISSEMENT-QUÉBEC

Québec offers many advantages that make it an attractive choice for private investment. What with growing globalization and fierce competition for investments though, advantages alone are not enough. They need to be promoted more vigorously and a reception structure needs to be set up to make things easier for businesses and prompt location and implementation decisions. Québec also requires an effective strategy for investment canvassing and incentives.

The strategy aims to increase investors' familiarity with Québec and show them that it is a good place for investment. It is also designed to improve coordination between government parties and intervention as well as the support measures for companies that wish to invest in Québec.

Investissement-Québec will therefore be set up, with the basic mission of drawing more investors to Québec. It will also act as the Québec government's only interlocutor for investors who require government support.

This corporation will be formed by consolidating resources from the ministère de l'Industrie, du Commerce, de la Science et de la Technologie (MICST) and all the personnel from the Société de développement industriel (SDI). In other words, a new agency will not be created. Two essential and specific roles will be assigned to Investissement-Québec.

First, Investissement-Québec will take on the role of coordinating government initiatives with respect to reception and support for the financing of major projects. It will implement an effective investor assistance and support process. Investissement-Québec will be responsible for presenting investors with an integrated package that will encourage them to carry out their project in Québec.

Second, it will act as Québec's promoter in order to attract foreign investment and increase domestic investment.

Financing assistance

In the past year, the government has introduced two programs to promote private investment: the Industrial Development Fund (IDF) and the Private Investment and Job Creation Promotion Fund (PIJCPF). These programs have reached their objectives. They will be extended for another five years and Investissement-Québec will be given the responsibility of managing them. Program activities will be combined under a new PIJCPF program with an envelope of $500 million for the next five years, which should generate $5 billion in investments.

Furthermore, up to $40 million will be devoted every year for five years by the ministère de l’Emploi et de la Solidarité to manpower training and upgrading in conjunction with major investment projects which could total $800 million.

Garantie-Québec

Investissement-Québec will have a subsidiary devoted to the financing of small and medium-sized businesses. The new financial assistance program set up in 1996 under the name Garantie-Québec will continue to offer loan guarantees as its main financial product. This approach is intended to meet the new requirements of the financial market which, since the last economic recession, has limited access to financing for businesses. Small and medium-sized businesses have been especially affected by this because of insufficient collateral and guarantees. In the next five years, Garantie-Québec will aim to participate in the financing of $1.3 billion in investment projects undertaken by Québec's small and medium-sized businesses.

4. DEVELOPMENTAL INVESTMENT IN RESOURCES

Maintenance of government assistance for the mining sector

Additional appropriations of $18 million over three years will be granted to support mining industry development. This should facilitate the completion of several projects that could total almost $200 million in investments.

Extension of natural gas network

Measures will be introduced to support investment projects worth up to $50 million, in order to serve certain areas that do not have access to natural gas yet.

INCREASING PRIVATE INVESTMENT
OBJECTIVE: $19 BILLION OVER 5 YEARS

Measure	Methods	Investment ($M)
New SGF	• Creation of more consortia with the private sector • Minority interest; patient capital; government outlay: $2MM • Pro-active approach to project development (prospection, financial engineering, establishment and follow-up) • 10 target sectors: metals and minerals, transportation equipment, recreational tourism, agri-food industry, health, chemicals technology, machinery, industrial logistics	10 000
Innovatech and other government corporations	• Accelerating the start-up of technological SMBs • Minority interest • Creation of Innovatech Régions ressources • SODEC: creation of SODEC financière in cooperation with the private sector; financing of projects to distribute large-scale cultural productions on the world market • SDBJ: promote economic diversity	1 650
Investissement-Québec	• Package for investors • Prospecting for foreign investments • 5-year extension of PIJCPF for projects that are worth over $10M or create at least 100 jobs, and projects worth over $2M that create at least 50 jobs in the multimedia sector, call centres or the mining sector • Types of assistance: payment of interest, subsidy per job created, loan guarantees • Main sectors: metallurgy, chemicals, forest products, tourism and technology	5 000
Garantie-Québec	• Loan guarantee for SMB investment projects • Credit line for exports • Financing of tax credits	1 300
Emploi et Solidarité	• Manpower training assistance (max.: $40M/year)	800
Natural ressources	• Assistance for studies and work in the mining industry • Extension of the gas network	250
Total		**19 000**

1998-2002 INVESTMENT OBJECTIVE: $19 MM

FOR BUSINESSES SEEKING FINANCIAL SUPPORT FROM THE GOVERNMENT

$7.1MM

INVESTISSEMENT-QUÉBEC

- Reception- single information centre
- Assistance package
- Prospection

$250M

Specific programs of the ministère des Ressources naturelles

$200M

Assistance for the mining sector

- Mining
- Studies and innovation

$50M

Extension of the gas network
Target territories

- Saint-Hyacinthe
- Coaticook
- Outaouais
- Québec

$5MM

PIJCPF

Financial assistance for:

- Projects of over $10M or at least 100 jobs
- Projects of over $2M and at least 50 jobs in the multimedia sector, call centres and mining sector

$800M

Manpower Training Assistance Program of the ministère de l'Emploi et de la Solidarité

$1.3MM

Garantie-Québec

- Loan guarantee for SMBs
- Assistance for exports
- Financing for tax credits

Joint action
Prospection

FOR BUSINESSES SEEKING A BUSINESS PARTNER

$10MM

SOCIÉTÉ GÉNÉRALE DE FINANCEMENT

- Partnership with the private sector
- Minority interest (never over 50%)
- 10 sectors :
  - Metals and minerals
  - Chemical and petrochemicals
  - Forest products
  - Agri-food industry
  - Transportation equipment
  - Machinery
  - Technology
  - Health
  - Recreational tourism
  - Industrial logistics

$1.6MM

INNOVATECH CORPORATIONS

- Grand Montréal
- Québec et Chaudières - Appalaches
- Sud du Québec
- Régions ressources (creation)
  - Minority interest
  - Technological business start-ups
  - Main sectors: information technology, health and biotechnology

$40M

JBDC

- Partnerships
- Economic diversification

$30M

SODEC

- Financial component
- Distribution on the world market

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INTRODUCTION

Increased employment is one of the government's key concerns, and investment is an essential determining factor in our economy's ability to generate jobs.

This is why the government introduced a series of measures over the past year to promote private and public tangible investment, with the Private Investment Promotion Plan (PIPP) as the main component. The PIPP consolidated the Private Investment and Job Creation Promotion Fund (PIJCPF), tax incentives, partnerships with government corporations, environmental investment, the availability of a block of 500 megawatts of electrical power for industry, and the Industrial Development Fund (IDF). All of these measures facilitated new job-creating investments. After only one year, more than 90% of the investment objectives have been reached, which will represent the creation of more than 15 000 direct jobs.

The government intends to pursue its strategy for supporting private investment in order to encourage businesses to undertake even more projects. It plans to reorganize the tools at its disposal so that it can take up the challenges of the new millennium. The government will also step up its promotion of Québec and its investment prospecting among local and foreign decision-makers.

Québec has major comparative advantages. With increasing globalization and ever fiercer competition for investments, though, advantages alone are not enough. They need to be promoted more vigorously and a reception structure needs to be set up to make things easier for businesses and prompt decisions to locate in Québec.

First, this paper briefly reviews the strategic importance of tangible investment for an economy and then presents the action plan and details of the new measures announced in the Budget Speech.

1 Business investment: A strategic issue

1. BUSINESS INVESTMENT: A STRATEGIC ISSUE

More investment means more job creation

Investment by businesses in tangible assets, whether to add equipment and machines or to build new facilities, is one of the key factors that determine economic competitiveness, job creation and standard of living. It permits the sustainable development of an economy's industrial structure because the decision to invest by a business determines its fate for a long period of time. In addition, it is mostly private businesses that make investment decisions.

For a very open economy like Québec's, the stakes associated with investment are substantial. Now more than ever, Québec is subject to competition from foreign products and services. Also, its economic prosperity is closely linked to exports. Businesses established in Québec therefore cannot afford to invest less than their competitors in the rest of the world; if they do, they run the risk of losing their share of the market and seeing jobs disappear.

Foreign investment: definite tangible benefits for Québec

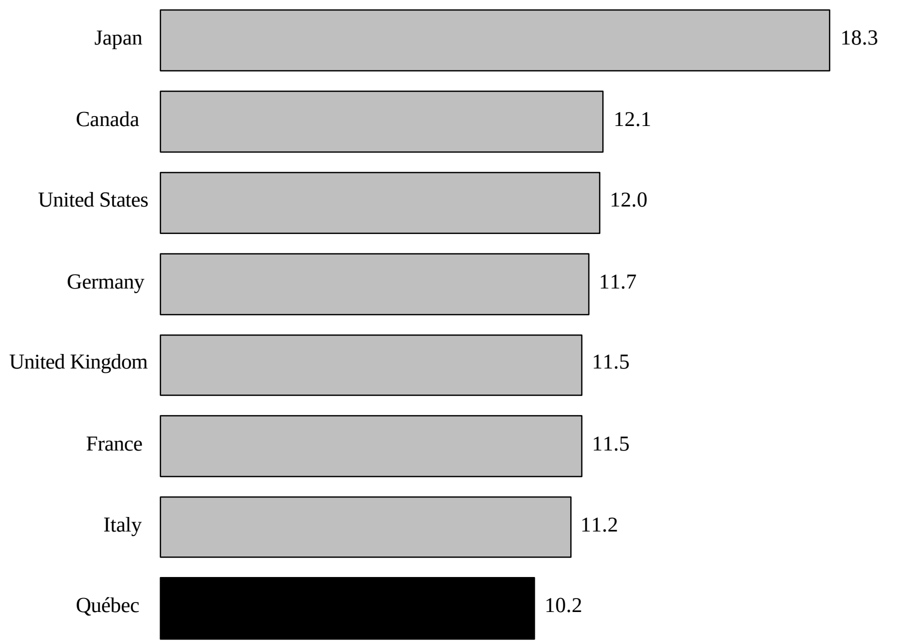
To compensate for the slower increase in domestic demand, Québec must conquer new markets. Foreign capital is indispensable in this regard. Most countries have understood this and are energetically competing for a bigger share of the international investment pie. Besides ensuring capital transfer and thereby creating employment, foreign business investment engenders other benefits. For example, it can enable Québec's businesses and workers to acquire new technologies and skills, particularly in the field of management, and to gain access to new information and marketing networks. These advantages generate considerable economic spin-offs for businesses already established in Québec.

1.1 Investment by Québec business

Business investment therefore plays a strategic role in creating jobs and spurring economic growth. Despite the growth in various cutting-edge activity sectors, however, Québec must improve its performance in terms of business investment. Since 1980, non-residential business investment has represented 10.2% of the gross domestic product (GDP) in Québec, compared with an average 12.6% for the G-7 countries. This means that the deficit is widening between the productive stock of capital available for Québec's workers and that available for workers from G-7 countries. This situation can create a gap in productivity and competitiveness for the goods and services produced in Québec.

This is not a new observation but it reflects the size of the challenge that Québec must take up.

GRAPH 1
NON-RESIDENTIAL BUSINESS INVESTMENT
QUÉBEC AND G-7 COUNTRIES, 1980-1995
(as a percentage of GDP)



Not enough business investment

In order to encourage more business investment, the government must use the levers at its disposal and act on the factors that influence the decision to invest. As a rule, existing markets for goods and services and a skilled labour force are the most important factors.

As far as markets are concerned, the more promising they are—the bigger, the more accessible and the more fast-growing, in other words—the more likelihood there is of returns associated with investments materializing. In this respect, Québec is well positioned. With the free trade agreements, it has access to the world's biggest market, i.e. the North American market.

As for the presence of a qualified, competitive labour force, Québec is generally well-equipped, although in this field it is absolutely essential to sustain improvement and to react quickly to any shortage that might arise in certain specialized areas.

Where both access to a huge market and the presence of a skilled labour force are concerned, however, Québec's situation is not all that different from that of other North American regions. Attracting more investors is therefore no small challenge.

Attracting more investments: a major challenge

In its economic development strategy, the government proposes ensuring even better conditions for economic development in general to reinforce Québec's attractiveness as a site for businesses to be located, particularly through sound public finances, a competitive personal and corporate tax system, regulatory streamlining, and support for innovation and human resource development. To boost the business investment level in Québec significantly, additional, vigorous efforts will have to be made of course.

1.2 Strategy for increasing private investment

PIPP a success

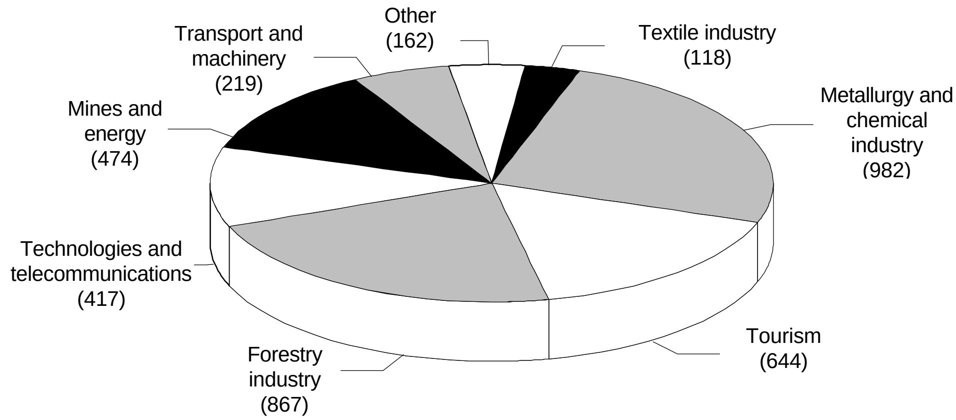
Because of the stakes referred to above, last year's Budget Speech prepared the ground for the government strategy, i.e. the Private Investment Promotion Plan (PIPP). The PIPP aimed for $4.2 billion in investment before October 1998. By mid-March—six months before that deadline—approved projects and those in the final stages of negotiations accounted for 92% of the objective.

TABLE 1
PRIVATE INVESTMENT PROMOTION PLAN
(in millions of dollars)

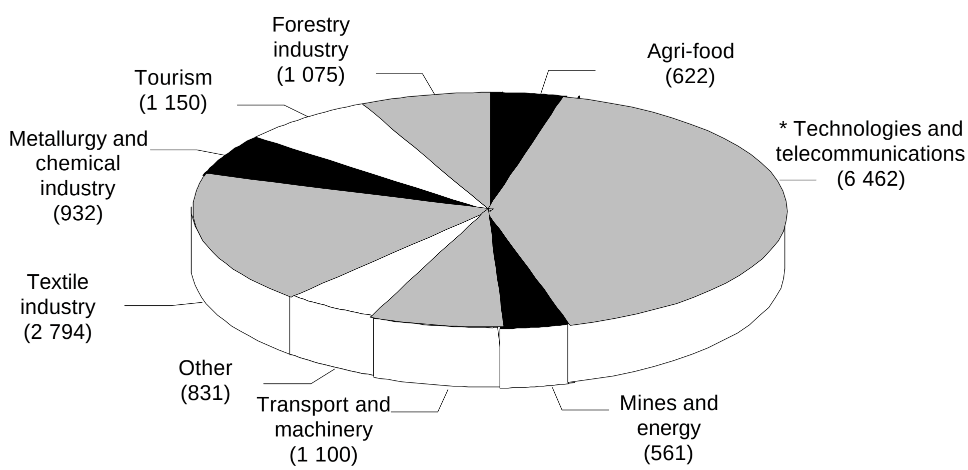
	Investment objective (March 1997)	**Projects approved or in final stages of negotiations (March 1998)**
Private Investment and Job Creation Promotion Fund	2 200	2 069 (94%)
Tax measures and partnership, including: – relief from tax on capital – accelerated depreciation – tax holiday for new corporations	1 300	1 223 (94%)
Environmental investment – agro-environmental – contaminated sites	235	20 (9%)
Investments supported by measures announced at the Summit Conference on the Economy and Employment: – Industrial Development Fund (IDF) – Hydro-Québec: block of electrical power	500	571 (114%)
Total	4 235	3 883 (92%)

The sectors involved vary greatly. Once the projects have been completed, they should lead to the creation of over 15 000 direct jobs.

GRAPH 2
PRIVATE INVESTMENT PROMOTION PLAN
PROJECTS BY SECTOR (IN TERMS OF ANTICIPATED INVESTMENT), MARCH 1998
(in millions of dollars)



GRAPH 3
PRIVATE INVESTMENT PROMOTION PLAN
PROJECTS BY SECTOR (IN TERMS OF JOBS ANTICIPATED), MARCH 1998



* Including call centres

The government proposes additional concrete measures this year for boosting business investment significantly over the next few years.

Government strategy aims at sustainable effects

These are not measures designed with immediate, short-lived results in mind, but rather developmental actions that will have sustainable effects on the development of employment and improvement of the standard of living in Québec.

The government will use all the means at its disposal to attract more business investment.

First of all, it will introduce certain measures aimed at maximizing the leverage effects of the government investment and venture capital corporations. In concrete terms, the government plans to consolidate a number of government corporations in order to create a government "mega-corporation" with sufficient financial clout and human resources to attract more investment. In addition, the government proposes investing close to $2.4 billion in these corporations in order to enable them to achieve close to $11.7 billion in investment in partnership with the private sector over the next five years.

Secondly, the government will be setting up Investissement-Québec, a government corporation with the mandate of promoting, prospecting for and supporting investment. It is imperative that Québec be promoted more as an advantageous investment site.

In addition, several states in the US and many countries in Europe and other parts of the world have implemented elaborate and often generous programs to attract more investors. Québec cannot afford to trail behind. It must do its utmost to attract new businesses, particularly those with global mandates, so that it can participate fully in the growth of the global economy and international trade.

For an economy the size of Québec's, the gains that would be derived from the success of this initiative in terms of jobs and competitiveness are considerable. The government is therefore going to create an investment assistance program to be managed by Investissement-Québec. This program, stemming from the merger of the Private Investment and Job Creation Promotion Fund (PIJCPF) and the Industrial Development Fund (IDF), will have a budgetary envelope of commitments totalling $500 million for five years. It will keep the PIJCPF name. Given the leverage effect of this type of program, it should make it possible for the private sector to achieve about $5 billion in investments.

Small and medium-sized businesses (SMBs) will continue to be strongly supported in a special way. An Investissement-Québec subsidiary will be responsible for the management of the current Société de développement industriel du Québec (SDI) loan guarantee program. In the next five years, this subsidiary will aim to support $1.3 billion in investment projects.

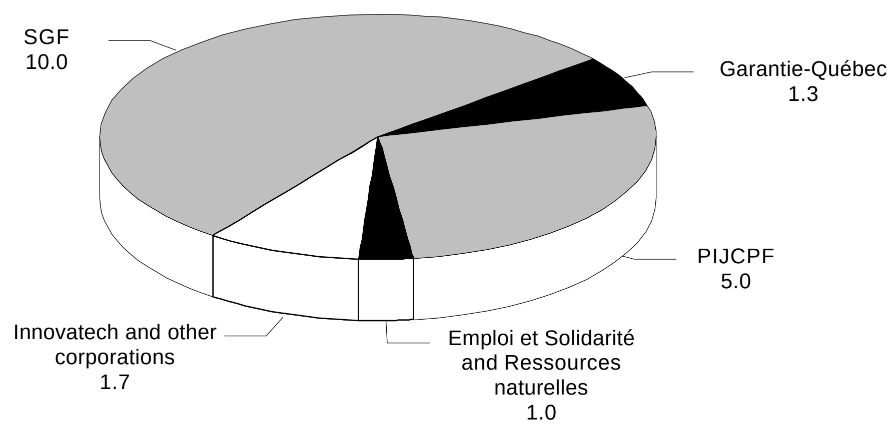
In modern economies, a skilled, trained labour force constitutes a decisive factor. The ministère de l'Emploi et de la Solidarité will devote an envelope of up to $40 million per year for five years for training manpower in conjunction with major investment projects, which could lead to projects totalling $800 million.

Furthermore, other special measures for the natural resource sector could give rise to over $250 million in investment.

Target: $19 billion in private investment

To sum up, the government is proposing an ambitious plan to stimulate investment and job creation. The targets are set high, i.e. investment worth a total $19 billion over the next five years. The graph below illustrates the government's objectives.

GRAPH 4
INVESTMENT OBJECTIVE, 1998-2002: $19 BILLION
(in billions of dollars)



2 Improved performance by government investment and venture capital corporations

2. IMPROVED PERFORMANCE BY GOVERNMENT INVESTMENT AND VENTURE CAPITAL CORPORATIONS

The major changes that shape modern economies automatically lead governments to question their roles. It therefore goes without saying that government investment and venture capital corporations are also called upon to question their strategies and the way they operate and are organized. The government corporations here are: the Société générale de financement du Québec, (SGF), the Société québécoise d'initiatives agro-alimentaires (SOQUIA), the Société québécoise d'initiatives pétrolières (SOQUIP), the Société de récupération, d'exploitation et de développement forestiers du Québec (REXFOR), the Société québécoise d'exploration minière (SOQUEM), the Innovatech corporations, the Société de développement des entreprises culturelles (SODEC) and the Société de développement de la Baie James (SDBJ).

Before we describe the measures affecting these government corporations, it will be helpful to outline their activities and the challenges and issues they will be facing.

2.1 Contribution of government investment and venture capital corporations to Québec's economic development

2.1.1 Historical context

Government corporations have contributed substantially to Québec's development

The reasons that led to the nationalization of electricity gave rise to the creation of several government corporations in the 1960s and 1970s. The concept of economic nationalism was in vogue around the world back then as a justification for government interventions, and Québec was no exception. Because of the lack of Francophone entrepreneurs and the absence of substantial Québec capital, the government decided to use the leverage of the state and intervene in sectors considered to be strategic. It was felt that the government corporation format would be more flexible for managing this intervention than internal departmental control.

The socioeconomic context that led to the creation of the first government corporations has changed a great deal over the years. Suffice it to say that the large number of French-speaking Quebecers now in decision-making positions and the emergence of what is known as "Québec Inc." have altered the playing field. The creation of government corporations would appear to have made a vital contribution to this growth.

2.1.2 Sectors where the government has intervened

Government corporations mostly intervene in sectors linked to the development and processing of natural resources: oil and gas, mining, metals, petrochemicals, forestry and the agri-food industry. The SGF began in 1982, however, to make certain investments in cutting-edge fields such as biotechnology and information technology. This trend became more pronounced in the 1990s, with the creation of the three Innovatech corporations. These firms promote and support innovative technology projects.

2.1.3 Developmental effects

As an investment project catalyst, government corporations help develop the industrial structure

With the current high unemployment rate, government investment and venture capital corporations represent one of the ways that the government increases investment, employment and, ultimately, the standard of living and general well-being of Quebecers. From a historical viewpoint, government corporations have clearly made a major contribution to the establishment of a modern, diversified industrial structure in Québec.

These public corporations add structure and profitability, offering sustainable benefits for Québec's economic development. They play a specific role as a catalyst and initiator of job-creating developmental projects. They actively search for new opportunities to strengthen Québec's industrial fabric and increase its diversification. They also contribute to local and foreign business linkage, by promoting projects within industrial clusters for example.

Government corporations help attract industrial partners from other countries by highlighting the advantages of coming to Québec to set up business. A government corporation can be an important asset for businesses looking for a local partner. Promotion initiatives along with the good reputation and expertise of our government corporations can heighten Québec's profile and increase its appeal as an investment site. In addition, their financial engineering skills and familiarity with the North American market are undeniable advantages, particularly for foreign investors that see their Québec projects as a way onto the US market.

Business partnership between the private sector and the government corporation also entails a sharing of risk between partners, which favours the completion of more projects. Government corporations can participate in projects where the risks are higher but the long-term profitability prospects are good (patient capital), but which also have a developmental effect on the economy.

Privatization also plays an important role in strengthening Québec's industrial structure. When an asset held by a government corporation is disposed of, the government looks for a buyer that offers the best prospects for developing the business in question in compliance with government orientations with respect to economic development. Disposal of assets at the opportune moment often revitalizes the business by injecting new capital, adding new managers or adopting new orientations. This is what happened after SOQUEM's interest in Cambior inc. was sold: this business became one of the most important mining companies in Québec and it now operates internationally. In other cases, privatization has made it possible to strengthen the businesses and sectors concerned, by prompting alliances with foreign investors, for example.

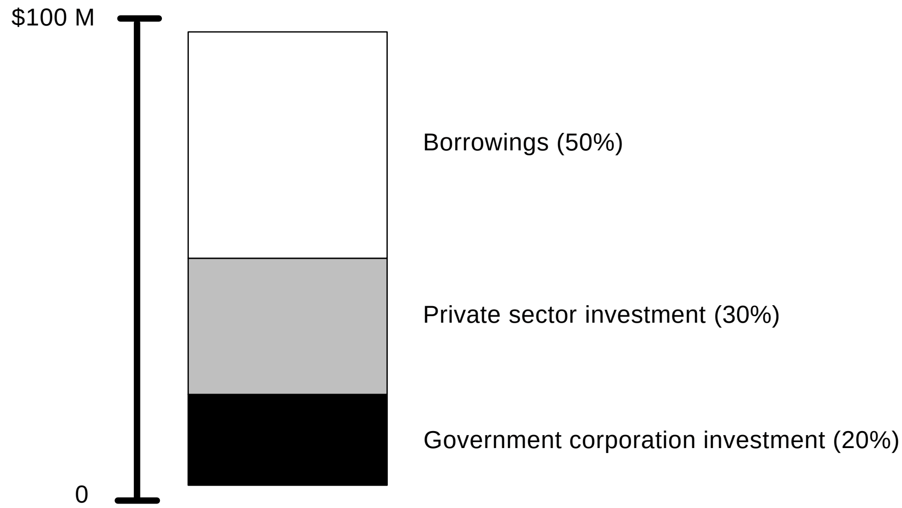
Lastly, it should be pointed out that government corporation holdings have had a decisive impact on Quebecers' scientific, technical and administrative skills. Many of Québec's large private companies have expanded thanks to their business relationship with government corporations, whose actions have therefore contributed directly to the strength of Francophone entrepreneurship.

The leverage effect

Revealing results: five dollars in investments for every dollar invested by a government corporation

The Québec government's investments in government corporations have a pronounced leverage effect. Over the last seven years, every dollar invested by these corporations generated approximately five dollars in total investments, as the graph below illustrates. Also, these projects are carried out in partnership with the private sector and they lead to the creation of permanent jobs in addition to those linked to the construction phase.

GRAPH 5
LEVERAGE EFFECT AND TYPICAL FINANCING FOR A $100-MILLION PROJECT CARRIED OUT IN PARTNERSHIP WITH THE PRIVATE SECTOR



2.1.4 Learning from past mistakes

The private sector must be the principal promoter of investment projects

Over the years, the experience gained from a large number of projects in which government corporations have participated has taught us the following lessons:

- most projects in which the government, through a government corporation, held majority interest in a business competing with the private sector ended in substantial losses (Sidbec, Société nationale de l’amiante, MIL Davie, Québécair, Raffinerie de sucre du Québec);
- the government sustained significant losses in attempts to salvage faltering businesses (such as the Société pétrochimique Kemtec);
- the government finds itself in a very disadvantageous negotiating position when a project has financial problems if the financial risk that it assumes is not proportional to that taken by the private sector;
- the government corporation projects that were successful were those where the financial risk was largely borne by the private sector and where the operator was a specialist in the field concerned;
- when government corporations dispose of their investment at an opportune moment and at a fair price, they get high returns that, financially speaking, justify the government's investment capital.

Minority interest on a business basis

These findings have made it possible to pinpoint a number of factors that should help set out guidelines for a government corporation's involvement in an investment project and thereby reduce the risks for the government as well as future financial losses. The government has turned the page once and for all on past forms of intervention where a government corporation became the key instigator for the development of a given sector. The private sector remains the engine that drives economic growth and employment.

First of all, government corporations and their subsidiaries must participate in projects on a business basis, under the same terms and conditions as the private sector partner and shouldering the same risk. This allows the government corporation to reap reasonable returns that are comparable to those of the private sector.

Second, unless the circumstances are exceptional (liquidation, departure of a major shareholder, etc.), these government corporations and their subsidiaries should hold only a minority interest in the investment projects, i.e. holdings of 50% or less. This way, the strategic choices and decisions are made by the private sector, so that the risk shouldered by the government corporation is reduced to that assumed by the private sector, which is responsible for seeing that the project runs smoothly. The private sector has the expertise needed for the day-to-day management of the project and must therefore assume leadership for routine operation. The government corporations must use their sectoral expertise as a catalyst to promote the development of new projects.

Mobilization of resources to develop new projects

Third, these corporations need to concentrate on spurring new investment projects instead of being permanently involved in existing businesses, as an investment firm would be. If the government corporation were permanently involved, it would not have any additional economic impact. The temporary role played by the government corporation allows the government to recover its investment and added value when the government's presence is no longer required (i.e. when the project reaches maturity) and the timing is right. The government corporation must therefore dispose of its holdings for a fair price. The amounts recovered can be reinvested in other projects so as to keep the economic activity wheel turning. The government corporation's policies must include stipulations concerning the point at which the government's interest should be sold and the profitability objectives targeted.

2.2 Government corporations and the new challenges of modern economic development

Government corporations have to adjust to radical structural changes in the economy

Like most industrialized nations, Québec has to cope with the structural upheaval which is in many respects responsible for current economic problems — unemployment in particular.

Since the beginning of the 1990s, Québec has had to adjust rapidly to economic globalization stemming from two key factors: deregulation and the information technology revolution. The consequence has been, among other things, that the knowledge-based components of the economy have now become the most dynamic.

Basically, the technology revolution and opening of markets cause structural changes that dictate new requirements in terms of economic development but also favour the emergence of new opportunities. Because everything is changing so fast, government corporations must be prepared to adjust quickly to the constant changes in the economic environment so that they can benefit from the new development opportunities.

Government corporations still important development tools for Québec

In the current context of globalization, private enterprise has been given a leading role in economic development. In Québec, the increase in entrepreneurs, small and medium-sized businesses, and large businesses has allowed the private sector to take over from government corporations in many sectors. It would be too much of a risk, however, to count entirely on the private sector to fulfill Québec's full development potential. Social profitability, developmental effects and Québec's special situation in the North American context are all factors on which the private sector places less importance but that the Québec government takes into account when introducing economic policies.

The government therefore needs flexible, effective instruments for the intervention it considers strategic for Québec's economy. Consequently, the mandate, activities and organization of government corporations must provide support for government strategies.

2.3 Government investment corporations

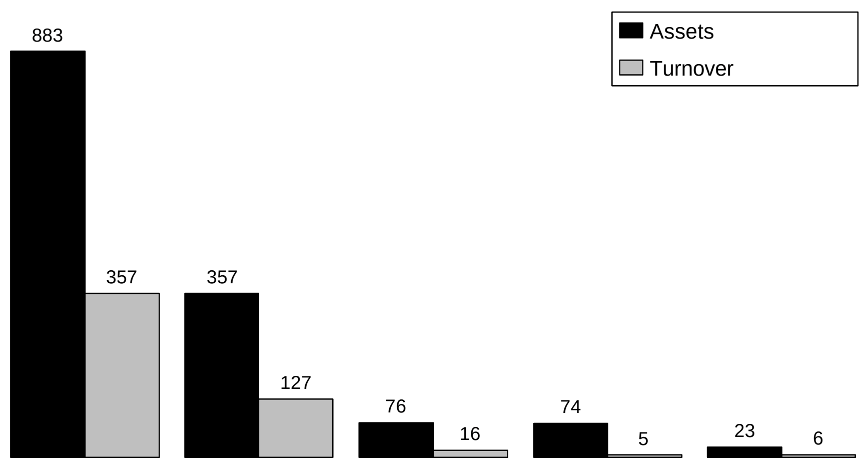
Before discussing the action plan and the resulting measures announced in the Budget Speech, we would like to profile the five government investment corporations.

These five corporations are the SGF, REXFOR, SOQUIP, SOQUEM and SOQUIA.

The Québec government created these corporations in the 1960s and 1970s in order to boost development in certain industrial sectors, usually in partnership with the private sector.

The graph below illustrates clearly how important government investment corporations are to Québec's economy. In 1996-1997, their total managed assets came to almost $1.4 billion and their overall sales, to $511 million; they supported over 9 000 jobs.

GRAPH 6
GOVERNMENT INVESTMENT CORPORATIONS, 1996-1997
(in millions of dollars)



Number of direct and indirect jobs	4 966	2 118	2 057	60	31

* After the transaction with Capital d'Amérique CDPQ inc. aimed at setting up an investment corporation in the bio-food sector

2.3.1 Reorganization essential

Current structure not appropriate for the next millennium

Government investment corporations were organized the way they are now as a result of a series of government decisions which, in some cases, go back as far as the early 1960s. On an ad hoc basis, the government created a corporation for each sector that it wanted to develop at the time. Over the years, though, it has become apparent that this type of organization, where each entity operates independently, has many shortcomings.

This means that there is a lack of cooperation and synergy between government investment corporations. They are independent of one another and do not attempt to coordinate their action or share their experiences.

Furthermore, these corporations each have their own investment prospecting activities, which is more expensive and less efficient, and the scope of these activities varies in keeping with their financial resources. Consolidating them would give them access to a bigger pool of promoters and allow them to further develop the international component.

Also, it is not always clear how responsibilities are to be distributed among the corporations. For example, the SGF and REXFOR both have holdings in pulp and paper companies.

Government investment corporations must act as catalysts of economic development. They have an important part to play in the search for investors, particularly where investment abroad is concerned. The competition between jurisdictions is fierce for foreign investors and global mandates. Government investment corporations must be proactive and imaginative, and demonstrate their leadership so that they develop projects in partnership with the private sector and thereby influence decisions in such a way that Québec receives a greater share of investments.

In addition, government priorities dealing with innovation and market development (exports) need to be considered by government investment corporations.

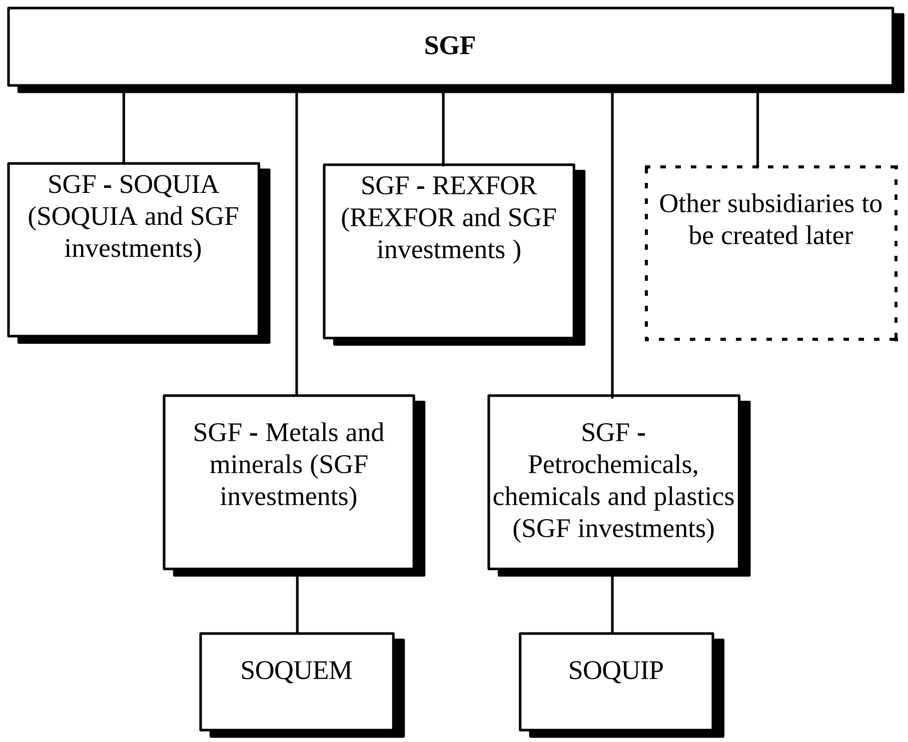
We are seeing the creation of large industrial groups

These government corporations are also called upon to alter the way they operate so that they can tackle the new challenges and issues of modern economic development. The biggest challenge is globalization of the economy. This trend should prompt businesses to adopt a broader view of economic development, while concentrating on their sectoral expertise. Also, the businesses that are the most active on global markets are very large and their success depends, among other things, on the synergy and dialogue and cooperation that develops between the independent entities that make up the business. Government investment corporations must therefore be prepared to operate with larger entities with a different organizational structure, so that they can respond more effectively to this challenge.

2.3.2 The SGF's new structure

Reorganization of government investment corporations in the interests of synergy and cohesion

So that government investment corporations can participate fully in the government's cohesion and effectiveness goals for economic development, they will be reorganized into a holding-type structure. In concrete terms, the government corporations SOQUEM, SOQUIA, SOQUIP and REXFOR will be consolidated with the SGF and reorganized, with the investments they hold, in the same sectors to form affiliated entities.



This reorganization will provide for the improved cohesion of government corporations in terms of economic development activities. The global view of economic development will be added to the current sector-based view. By ensuring the coordination of the corporations' activities and the government's economic orientations, the holding-type structure should allow the Québec economy to profit fully from the potential for synergy of their interventions. In addition, this will make it possible to eliminate the problem of the distribution of sectors among government corporations, and cut down on the number of steps that local and international investors have to take to complete their financial engineering.

Moreover, the creation of a holding company will have a positive impact on government corporation effectiveness. The creation of a single interlocutor will improve the private sector's perception of the government corporation as well as investment prospecting, and will make it possible to rationalize management costs (financing, international canvassing, privatizations, financial engineering, etc.).

The new SGF: the main interlocutor for businesses that want to undertake joint projects

This new form of organization will also bring the management philosophy of government corporations closer to that of the private sector by reinforcing the autonomy of the parent company and reducing government supervision of subsidiaries. Levels of authority will be adjusted in keeping with the size of the holding company, which will suit the investor role of these corporations better as well as the size of the institutions around the world with which the SGF is competing. The government corporations will gain in terms of flexibility and rapidity of operations.

The establishment of the new organizational structure will not have any profound effect on the way the SGF operates. The SGF's current decision-making framework will be retained, as will the respective roles of the players involved: government, government corporations, entrepreneurs, and investors. Keeping the present relationship between the SGF and the government will give private partners an appreciable and proven level of comfort.

As part of the increase in its activities, the SGF plans, when the number, value and extent of maturity of its investments in an industrial sector justify it, to transfer these investments to an independent subsidiary headed by management specialized in the field involved. There will also be a board of directors made up of people from the industrial sector to help the managers.

Four subsidiaries will be created in the short term: SGF-Pétrochimie, Chimie et Plasturgie, consolidated with SOQUIP, SGF-Métaux et minéraux, consolidated with SOQUEM, SGF-SOQUIA, and SGF-REXFOR, the latter two of which will handle agri-food and forestry investments respectively.

The other developing sectors will continue to grow within the SGF until the creation of another independent subsidiary is justified.

In order to ensure harmonious integration of human resources and activities, a committee will be given the mandate to supervise this operation. It may suggest that adjustments be made to the proposed organizational structure if it decides that they are required.

Continued cooperation with sectoral departments

For all of the subsidiaries planned, most of the members of the boards of directors will be from the industry concerned and will be at arm's length to the SGF. In order to ensure sound industrial representation, these board members will be appointed after the leaders of the most representative private organizations in the sector and the ministers for these sectors have been consulted. The subsidiaries' business plans will be developed in close cooperation with the sectoral government departments involved.

2.3.3 The SGF's strategic plan

The SGF's objective: $10 billion in investments in partnership with the private sector

The reorganization of government investment corporations will contribute significantly to the growth of investment and employment in Québec. The SGF's strategic orientations for 1998-2002 are in keeping with the overall framework of strategic challenges that the government will have to take up over the next few years:

- promoting job creation;
- continuing to put public finances in order;
- proposing renewal of the economic development strategy with a view to maximizing its effects on Québec's economy;
- stepping up cooperation in government action in order to speed up economic development.

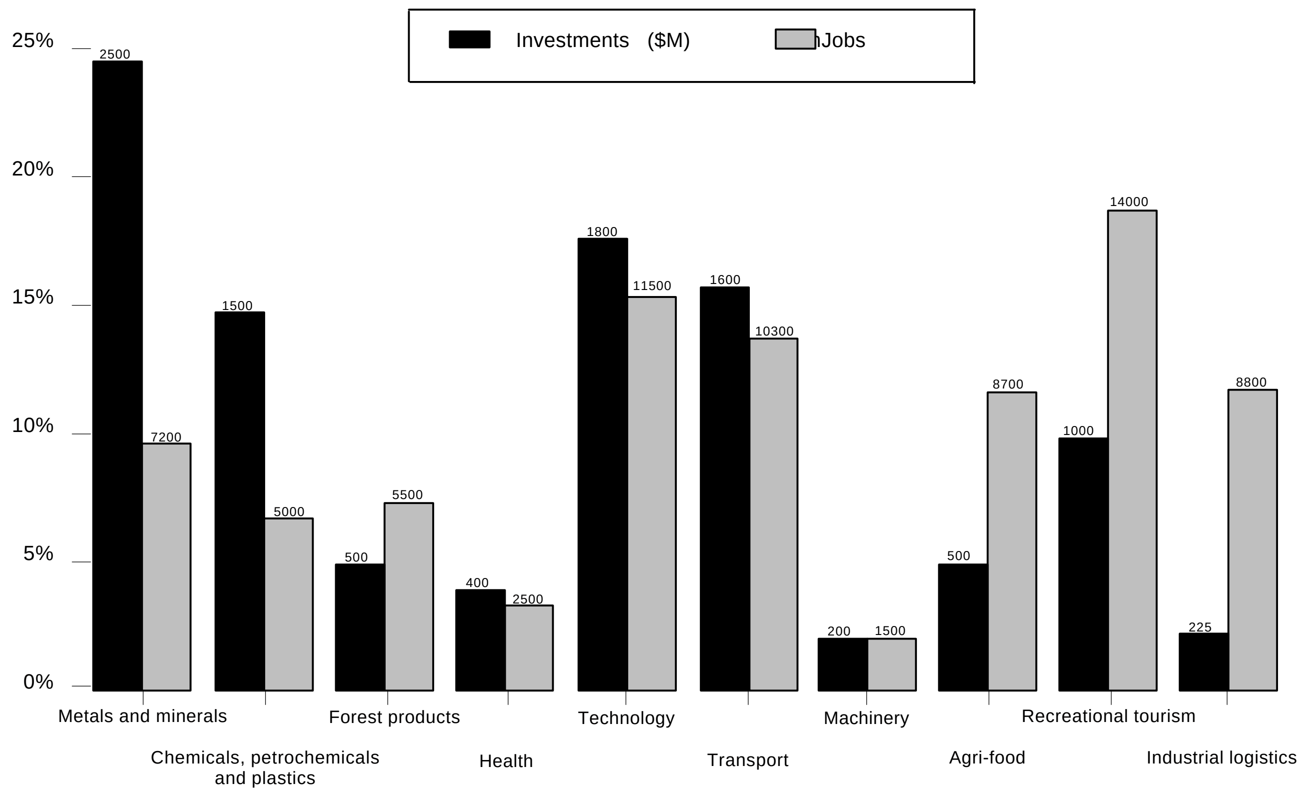
The SGF's general objective is to generate total investments of $10 billion within the next five years, chiefly in the regions. These investments will require $2 billion in funding by the government. They could lead to the creation of 26 000 direct jobs and 49 000 indirect or construction phase jobs. This is no small order. In particular, the SGF will have to develop investment prospecting in order to attract more investors interested in undertaking investment projects in partnership with a government corporation.

Projects in promising sectors

At present, the choice of sectors in which government investment corporations are to intervene is based in large part on historical considerations. Furthermore, the choices have never really been questioned. From now on, the government will not give priority to any particular sector at the expense of the others. In this regard, the SGF will have to draw up broad guidelines which correspond to the basic orientations of Québec's economic development policy, i.e. to promote innovation, R&D, exports, global mandates, secondary processing of resources, developmental projects and sustainable development.

Investments are expected in ten sectors. The graph below shows the distribution as a percentage of total investments and total employment by sector. In addition, the investment amount and number of jobs anticipated is indicated for each sector at the top of the bar. For example, the metals and minerals sector should account for almost 25% of the total investments anticipated and for close to 10% of the jobs. Approximately 10% of the investments are expected to be tied to the recreational and tourism industry, which would lead to the creation of 14 000 jobs, or 19% of the anticipated total.

GRAPH 7
SGF: SECTORAL BREAKDOWN OF ANTICIPATED INVESTMENTS AND OF JOB CREATION, 1998-2002



The SGF's partnership with the private sector can also depend on whatever interesting projects arise, no matter what the sector. Even traditional sectors can offer strategic opportunities and a large potential for innovation.

On the basis of the number of projects and their size, these sectoral objectives are expressed as follows:

TABLE 2
SGF: PROJECT BREAKDOWN ACCORDING TO SIZE

	Project size	
	$100 million or over	**Under $100 million**
Projects to be carried out	24	101
Average project size (in millions of dollars)	320	30

It is important to remember that the terms for the SGF's participation in investment projects should correspond to the three basic principles given above. In other words, investments must be made on a business basis, the SGF should hold a minority interest only (50% or less) and it must dispose of its investment at the opportune moment for a fair price.

2.3.4 Evaluation

Government to monitor the SGF's performance

The government will have to evaluate the SGF's performance in financial terms and in terms of spin-offs. The five-year plan that the SGF submits to the government for approval will include performance and project completion targets which will serve as points of reference during evaluation. In particular, the government must make sure that the return on its investment in the SGF covers, in the medium term, at least the financing cost of its interest in the corporation. It will also have to evaluate the extent to which the SGF abides by the broad orientations of Québec's economic development policy by regularly monitoring the projects it is associated with.

2.4 Innovatech corporations

2.4.1 Mandate

The mission of the Innovatech corporations is to promote and support initiatives that will increase the capacity for technological innovation in the territories they serve. Their investment commitments are made in the form of high-risk investments in businesses with excellent prospects for growth. They are therefore active in all high-value-added sectors that create well-paying jobs.

2.4.2 Activities

Over $1.2 billion in investments since their creation

The three Innovatech corporations were created on different dates and have therefore not all reached the same stage of development.

The Innovatech du Grand Montréal corporation has supported over a hundred initiatives since it was formed in 1992 and has made financial commitments worth a total $202 million. The projects supported have made it possible to realize investments estimated at over $1 billion and to create or maintain 5 500 jobs. The book value of this corporation's portfolio was $121.3 million at March 31, 1997. The market value of the investments of Innovatech Grand Montréal has been assessed by the corporation at $150.9 million, an added value of 24.4%. This corporation has a very diversified portfolio. The main sectors it participates in are information technology, health sciences, metallurgy and industrial chemicals.

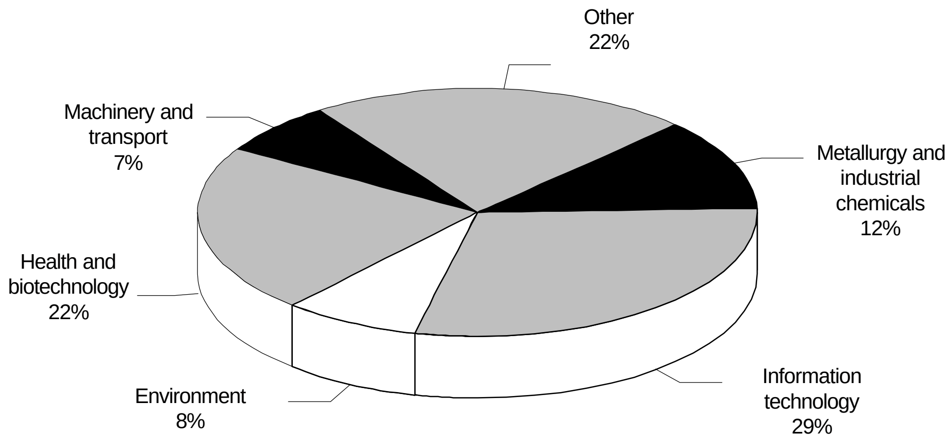
The Innovatech Québec et Chaudière-Appalaches corporation has participated in the financing of 46 initiatives since December 1993, involving financial commitments of $38.5 million. This financing prompted total investments of $218.3 million for the regions concerned and made it possible to create or maintain about 1 150 jobs. Most of its investments have gone into information technology and health sciences.

The Innovatech Sud du Québec corporation completed its first full year of operation on March 31, 1997. At that date, it had supported ten initiatives and committed a little over 10 % of its capital.

Considering how young the Innovatech de Québec et Chaudière-Appalaches and the Innovatech Sud du Québec corporations are, it is hard to assess the market value of their investments. Provisions for bad debts are minimal in both cases, however. Since their management and intervention style is similar to that used in Montréal, they can be expected to achieve comparable results in the medium term.

The graph below illustrates the portfolio breakdown by sector for the three Innovatech corporations.

GRAPH 8
INNOVATECH CORPORATION
INVESTMENT BREAKDOWN BY SECTOR



2.4.3 Orientations and priorities for action

The mandate and activities of the Innovatech corporations correspond perfectly with one of the government's priorities: the development of innovative businesses.

Because of the growth in the venture capital industry, however, it is important to focus on the niche (startup, marketing, etc.) in which the Innovatech corporations are to concentrate their efforts.

Innovatech corporations: dynamic regional technology partners

In addition, technology businesses doing R&D and whose profitability prospects are long-term require an injection of capital to start up and operate. This is why Innovatech focuses on the acquisition of capital stock. Also, this is the type of assistance that makes it easiest to find the partners essential to the smooth running of the investment project.

The statutes that created the Innovatech corporations provide that they will stay in operation only until March 31, 2000. This restriction is a problem, particularly since it makes it very hard to keep competent employees and also creates uncertainty among businesses in which the Innovatech corporations have invested or plan to invest.

Another problem stems from the fact that the sharing of responsibilities between government investment corporations and the Innovatech corporations is not always clearly defined. The mandate of the Innovatech corporations needs to be clarified in this connection.

Right from the start, the Innovatech corporations have been extremely successful. Their original approach revives the government's role as a promoter of economic development. The corporations are managed by people who are very active in regional communities. Also, the Innovatech format corresponds to the demands of technological innovation and venture capital. This is the reason why the government plans to maintain their role, with only a few adjustments being required to improve their effectiveness.

A better financial base for the Innovatech corporations

The government's priorities for the Innovatech corporations are, first of all, to provide them with a better financial base by changing them into share-capital corporations. This will make their structure comparable to that of private-sector venture capital corporations and government investment corporations.

This change will have the advantage of giving these corporations a financing formula that corresponds to their form of intervention. They will then have a better financial base for carrying out their investment projects. This will also help private partners see the Innovatech corporations in a more positive light; before, they might have been perceived by some as similar to grant-awarding agencies. The corporations will no longer make grants, although current commitments will be honoured.

This new status reflects the importance of having a government player in the innovative business niche. The sunset clause which provided for an end of these corporations' operations on March 31, 2000 will therefore be eliminated.

The management framework for human resources will also be relaxed so that the corporations have the potential to attract and hold on to their specialized personnel and to the expertise required to accomplish their mandate properly. From now on, pay scales, fringe benefits and the other working conditions will be determined by corporation by-law, with the exception of the chief executive officer, whose working conditions will be set by the government.

Giving priority to the start-up of technology companies

Their mandate will therefore be revised so that priority is given to financing the start-up of technology businesses, although they will still be able to invest in new initiatives proposed by existing companies. Despite the abundance of venture capital in Québec, private funds specializing chiefly in the start-up of technology companies are limited. The role of the Innovatech corporations therefore appears to be important in this niche and their presence will encourage partnerships with the private sector.

In order to fulfill their primary mandate effectively, the Innovatech corporations must concentrate on helping businesses start up and accordingly adopt a divestment policy.

The corporations will therefore have to set up a strategy for divestment (shareholders' agreements should provide for this eventuality) as soon as the technological risk phase is over, giving priority to:

- recourse to the public market;
- buy-back of holdings by shareholder-operators;
- sale to one of the other private investors involved in the project;
- after authorization by the Minister of Finance, transfer to the SGF at fair market value;
- sale to other buyers.

It should be emphasized that adopting this kind of strategy will help the Innovatech corporations become self-financing.

In addition, these corporations will have to favour holdings in the form of common shares as much as possible, in order to optimize returns in keeping with the major risks linked to the development of technological innovation. When the investment takes the shape of a loan or preferred shares, it should provide for a conversion option after the first few years.

2.4.4 Innovatech Régions ressources

In order to step up Innovatech's presence in the regions, a fourth Innovatech corporation with a regional resource mandate will be formed in order to serve businesses in outlying areas better.

The Minister of Industry, Commerce, Science and Technology will be responsible for the new corporation, Innovatech Régions ressources, which will cover the area of the following administrative regions:

- Bas-Saint-Laurent
- Gaspésie—Iles-de-la-Madeleine
- Saguenay—Lac-Saint-Jean
- Abitibi-Témiscamingue
- Côte-Nord
- Nord-du-Québec

The territories covered by the existing corporations will need to be adjusted accordingly.

2.4.5 Financing

Almost $1.6 billion in new technology investments

To ensure the continuation of the corporations' operations after the year 2000, their authorized capital stock will be increased by $125 million. This amount will be distributed as follows among the corporations:

TABLE 3
INNOVATECH CORPORATIONS: AUTHORIZED CAPITAL STOCK
(in millions of dollars)

	Now	**Addition**	**Total**
Innovatech Grand Montréal	300	50	350
Innovatech Québec et Chaudières-Appalaches	60	15	75
Innovatech Sud du Québec	40	10	50
Innovatech Régions ressources	-	50	50
Total	400	125	525

In addition to the amounts already paid, the Innovatech corporations will receive almost $320 million in additional funding over the next five years. This government investment in the form of stock capital should allow these corporations to support technology projects representing total investments of close to $1.6 billion in partnership with the private sector.

For the more recent Innovatech corporations, a grant covering part or all of operating expenses should be maintained until their portfolios have reached a level of maturity allowing them to finance themselves completely. This grant will be temporary and diminish over time.

To sum up, the Innovatech corporation experiment has proved to be a very positive one. The objective from a financial point of view is for these corporations to operate as much as possible like other venture capital corporations, without losing sight of the fact that their intervention cannot be evaluated solely on the basis of financial performance.

2.5 Société de développement des entreprises culturelles (SODEC)

2.5.1 Mandate

SODEC: Québec's cultural enterprise partner

SODEC is a government corporation for which the Minister of Culture and Communications is responsible. Its mandate is to promote and support the establishment and development of cultural enterprises, including the media, in all of Québec's regions. It also helps improve the quality of products and services and increase their competitiveness on all markets.

2.5.2 Activities

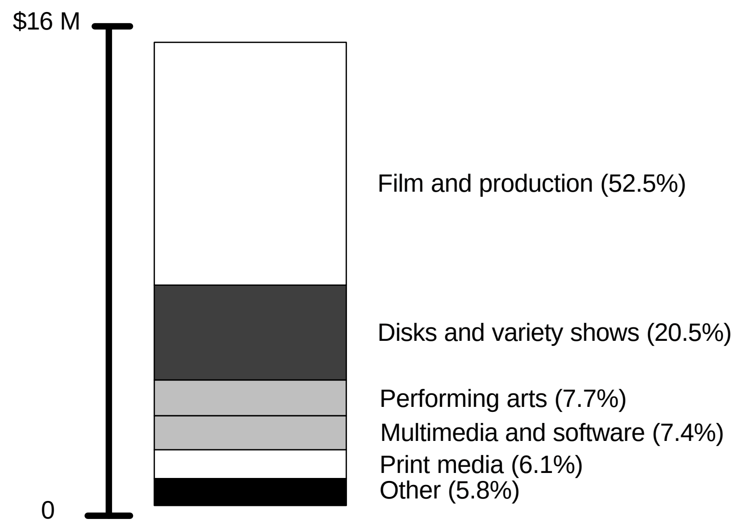
SODEC has various intervention tools at its disposal which allow it to adapt its intervention to different business situations. It uses these tools in tandem, concentrating on the business plan as much as possible, in order to support the publishing, distribution and export of Québec's cultural products. SODEC's intervention helps make businesses stronger and contributes to market development.

In conjunction with its financing of businesses, SODEC offers loan guarantees, loans and revolving credit. It can also subscribe for the businesses' stock capital.

In the last case, SODEC primarily refers businesses to the Culture and Communications Investment Fund (CCIF), created in 1996 in partnership with the Fonds de solidarité des travailleurs du Québec (FTQ). The CCIF is a venture capital investment corporation. It focuses on capital stock initiatives that help make the capital that businesses need to finance their economic development available to enterprises active in the culture and communications sectors.

As at March 31, 1997, SODEC managed a $20.4-million loan portfolio plus $15.8 million in loan guarantees.

GRAPH 9
SODEC: BREAKDOWN OF FUNDING AUTHORIZED BY SECTOR FOR 1996-1997



2.5.3 New financing orientations

SODEC's main challenge is to respond more effectively and with greater flexibility to the needs expressed by its clients. The context of providing financing for businesses has changed rapidly in Québec over the past few years. The arrival of new financial players on the scene has made financing more complex, and new business needs have emerged. Also, it is important to increase the international profile of Québec's cultural products.

SODEC's action supplements that of financial institutions, which are not always in a position to evaluate the potential of the cultural sector, which they consider to be high-risk. Over time, however, the cultural sector has proven to offer business opportunities and it is now an important link in the economic development chain.

Funding of cultural enterprises: more flexible, more effective and better tailored to needs

SODEC will have new means of intervention at its disposal to meet the financial needs of its clients. It will also be able to use financial tools such as secured bonds and unsecured convertible bonds. In addition, this corporation will be authorized to hold minority interest in cultural enterprises or distribution projects.

So that it can manage its new intervention optimally, the government will create SODEC, a financial subsidiary in which stock ownership is open to the private sector. Opting for the mixed enterprise format will enable it to take full advantage of SODEC's expertise, the network of financial institution contacts and the combination of public and private capital.

SODEC will have as much as $20 million at its disposal for undertaking the different projects planned on.

In concrete terms, these changes will allow SODEC greater flexibility in contributing to the development of cultural enterprises. They will also permit developmental intervention that SODEC was not in a position to undertake before, while abiding by the same intervention principles as the other government investment corporations.

SODEC will support Québec's cultural products and large-scale productions

Thanks to the use of unsecured bonds, SODEC will help young businesses in areas that are considered a priority for the government but involve a high level of risk: multimedia, software and cultural applications of information technology.

With its acquisition of interest in businesses, SODEC will play a proactive role and become a partner capable of influencing choices and strategies aimed at reinforcing specific cultural fields, particularly when it needs to intervene to structure a market or consolidate businesses.

Since it will acquire an interest in distribution projects, SODEC will be able to invest in businesses in Québec that have demonstrated their know-how so that they can participate in the lucrative global market for large-scale productions. These are highly structured fields that are primarily managed by international financial officers with impressive financial clout. The cultural arenas concerned are block-buster variety shows, the development of Québec artists' careers abroad, coproductions or the acquisition of foreign shows, and the use of multimedia titles on international markets. In these cases, SODEC would receive part of the profits made from these products.

SODEC will also be able to offer financial guarantees based on anticipated sales of cultural products for the international market. The cultural enterprises will therefore have marketing tools similar to those available in the chief countries that export entertainment products (films, television programs and international exhibitions, for example).

2.6 Société de développement de la Baie James (SDBJ)

2.6.1 Mandate

Economic development partner for the James Bay territory

The SDBJ is a government corporation and co-signer of the James Bay and Northern Québec Agreement. The Minister of Finance is the only shareholder in the corporation and the Minister of Natural Ressources is responsible for the implementation of legislation dealing with the SDBJ's economic development activities.

The goal of the SDBJ is to prompt the development of the natural resources other than hydroelectric resources found in the James Bay territory, and to see to the administration and land-use planning of the territory. The corporation uses its resources and skills to participate in the emergence and maintenance of economic activities in the interests of integrated and sustainable development for the region.

In 1989, the government confirmed a new role for the SDBJ. It has a dual mandate as a regional development structure and a service structure. As a regional development structure, the SDBJ supports an integrated, long-term view of development for the region. As a service structure, it capitalizes on its own familiarity with the region to develop business contacts with the governments, corporations, businesses and people there.

2.6.2 Main activities

In 1997, the SDBJ's turnover was $19 billion. Service activities accounted for almost 75% of this business—chiefly transportation infrastructure management including highway maintenance and repair and the running of airstrip facilities. The other 25% stems from property rental, management of the Auberge Radisson, management of mining investments and mineral titles, and economic development activities.

2.6.3 Review of the SDBJ's mandate

More business projects promoting economic diversification

According to the stakeholders in the community, the SDBJ's mandate should be adjusted to meet the needs of the James Bay region.

The SDBJ will therefore be reorganized so that it can participate jointly with the private sector in economic diversification projects and so that it will have additional financial means for developing these projects on a business basis.

At present, the act incorporating the SDBJ restricts it from investments in the natural resource sector. This same statute forces the SDBJ to invest solely in subsidiaries in which it has at least a 51% interest.

The action of the SDBJ should abide by the same principles that prevail for the government's other investment corporations: the investment must have profitability prospects and the SDBJ is not to have majority holdings. Also, the SDBJ's intervention must be on a business basis and its involvement in the project must only be temporary. This new orientation, which will require amendments to the act incorporating the SDBJ, should be carried out with the cooperation of the local communities.

The SDBJ's authorized capital is $100 million, $60 million of which has been issued and paid for. When the SDBJ invests in projects requiring an interest in the companies' capital stock, the government intends to gradually subscribe for it. As much as $40 million in private investment is expected over the next five years.

On another note, the Grand Council of the Crees and the Québec government concluded an agreement recently to embark on a joint process leading to the revival of the James Bay Native Development Corporation (JBNDC), an organization with the mandate of Cree economic development, instituted by the Québec government under the James Bay and Northern Quebec Agreement. This process will involve setting up appropriate mechanisms fostering a partnership between the SDBJ and the JBNDC in cooperation with the Crees.

2.7 Hydro-Québec: A profitable business and a funding source

Hydro-Québec is undeniably a major, unavoidable player in Québec's economic development. Investments made by Hydro-Québec over the years have had decisive developmental effects on the economy. These investments have created jobs for thousands of Quebecers and allowed countless private businesses to develop world-renowned expertise.

For instance, the construction of huge hydroelectric facilities led to the growth in consulting engineering, a field that, over the years, has become one of the stars of Québec's tertiary actuator sector. The firms in this sector are now exporting their expertise here and there around the world. Hydro-Québec has also contributed to the development of several manufacturing industries associated with the energy sector (turbines, power transmission cables, etc.). Thanks to its advantageous rates, this corporation has also attracted many industries (magnesium, aluminium) which have greatly reinforced Québec's industrial structure. Lastly, Hydro-Québec has many subsidiaries that are active in research, international projects and high technology sectors associated with its mission.

2.7.1 Challenges

Québec's biggest government corporation will have two priority challenges to take up in the years to come.

Improving the reliability of the transmission network

First of all, it will have to make its transmission network more secure. The ice storm in January 1998 made it clear that improvements need to be made to the transmission and supply network Hydro-Québec will be strengthening its network in the southwestern part of Québec over the next three years, at a cost of $815 million.

Increasing profitability appreciably

Second, Hydro-Québec aims to become one of the most successful companies in North America in its sector. The growth and profitability strategies in its strategic plan will lead to an appreciable improvement in its financial situation over the next few years.

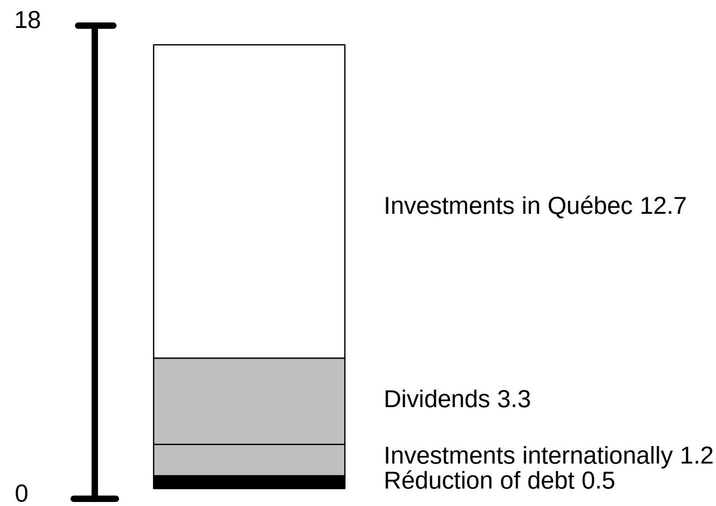
Hydro-Québec's liquid assets from its operations will allow it to finance all of its investments (approximately $14 billion) over the 1998-2002 period.

In addition, Hydro-Québec's strategic plan provides for much better profitability than in the past, reaching an 11.8% return on equity by 2002. This is comparable to the performance of other corporations in the same sector in North America. Hydro-Québec's average rate of return over the past ten years has been only 6.3%, which is insufficient from a strictly financial point of view.

Québec government to be paid dividends

Like the other commercial corporations, Hydro-Québec will be paying the government a portion of its net profits in the form of dividends. It has agreed to pay dividends not to exceed one half of its net profits. However, the government could declare substantially higher dividends, as the Hydro-Québec Act stipulates. It plans to limit its cash receipts, though, so that the corporation can continue to have a sound financial position and improve its financial ratios. For instance, its capitalization rate will increase from 25.1% to 30.5% during the period covered by the strategic plan.

GRAPH 10
HYDRO-QUÉBEC STRATEGIC PLAN *
USE OF FUNDS, 1998-2002
(in billions of dollars)



* ***Amended to take new investments stemming from the ice storm into account***

2.7.2 Government corporation investment objectives

In years past, different governments have used Hydro-Québec as an economic development tool — asking it to speed up or move forward certain projects, for example.

The strategy is different now, in the sense that Hydro-Québec is no longer asked to make any investments to meet temporary economic support objectives. If it is to improve its performance significantly, it will have to focus on the objectives in its business plan, according to which its investments must be profitable.

The investment objectives that the government investment and venture capital corporations have set for themselves are quite ambitious. They are aiming for total investments of almost $12 billion over the next five years. Hydro-Québec's anticipated investments in Québec of nearly $13 billion for this same period will be added to that amount.

GRAPH 11
INVESTMENTS OF GOVERNMENT INVESTMENT AND VENTURE CAPITAL CORPORATIONS AND THOSE OF HYDRO-QUÉBEC
(in billions of dollars)

The above graph shows that the investments of government investment and venture capital corporations for the next couple of years will be far greater, in relative terms.

Furthermore, compared with Hydro-Québec's investments, the projects of government investment and venture capital corporations are more diversified and will lead to the creation of more permanent jobs.

2.7.3 Financing the funding needs of government investment and venture capital corporations

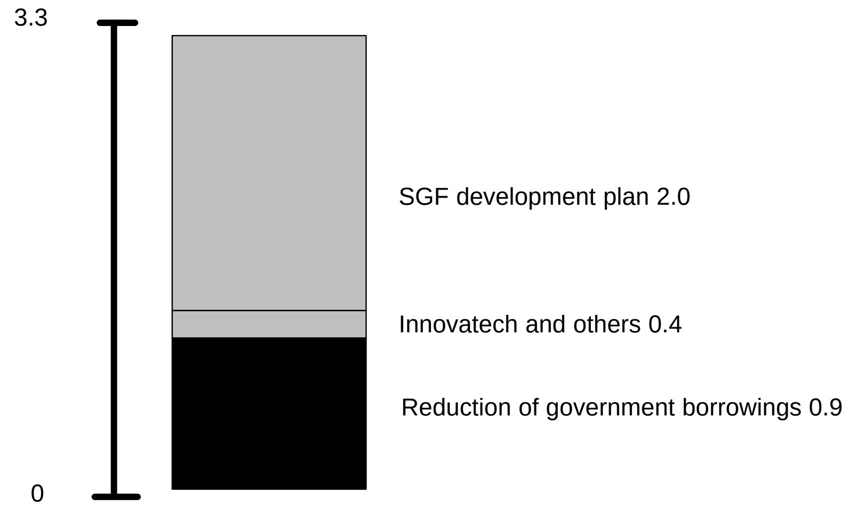
The strategic orientations of the SGF and the other government investment and venture capital corporations will require an injection of almost $2.4 billion in the capital stock of these enterprises in the next five years. It should be stressed that this amount is not a government expenditure: it is to be considered as a profitable asset from all points of view.

Dividends paid by Hydro-Québec will contribute to economic development

It has been proposed that a portion of the dividends that Hydro-Québec pays the government be reinvested in the form of capital stock in government investment and venture capital corporations in order to enable them to take on investment projects in partnership with the private sector.

The balance available will be reassigned to reduction of Québec government borrowing requirements.

GRAPH 12
USE OF DIVIDENDS PAID BY HYDRO-QUÉBEC, 1998-2002
(in billions of dollars)



It is important to remember that the amounts invested by the government in a given government investment and venture capital corporation have a major leverage effect. Each dollar invested by the government represents about five dollars in investments.

To conclude, the financing of government corporations aims at allocating part of the dividends paid by Hydro-Québec to economic development and at using them in such a way as to maximize the leverage effect. This way, Hydro-Québec will be able to operate within a framework that allows it to maintain a sound financial position. The government believes that the most beneficial approach for public finances, Québec's economy and employment is for Hydro-Québec to achieve the objectives of its strategic plan and for the resulting dividends to be used judiciously.

3 *Creation of Investissement-Québec*

3. CREATION OF INVESTISSEMENT-QUÉBEC

Fierce international competition to attract investors

Every year, about US $300 billion is invested around the world by multinational firms. Added to these billions are those invested by national companies. The competition is very fierce among jurisdictions for these investments. There are over 5 000 investment promotion and prospecting agencies canvassing and dividing up the projects of these firms. The magnitude of the challenge facing Québec as it vies for a larger share of the investment pie is apparent.

Over the past few years, the Québec government has developed strategies and tools for attracting foreign investors and prompting more projects among businesses that are already established in Québec.

However, because of rapid changes in the playing field due to globalization, in the behaviour of the main actors and in their financial and human resources, the government believes that its strategic plan needs to be revised in order to consolidate its strengths and resources with respect to investment promotion, prospecting and support.

There are many advantages to investing in Québec, but they are not very well known

Québec offers many competitive advantages as an investment project location, including:

- a qualified, stable and large labour force. There are also a wide range of training programs designed to fit the requirements of businesses and many tax benefits;
- Québec's industrial structure is founded on a number of dynamic sectors, stemming from the new economy in large part: the aerospace industry, consulting engineering, information technology, biotechnology, the pharmaceutical industry and electricity;
- R&D incentives are very advantageous for businesses;
- the R&D sector is also notable for the interaction between business, universities and government;
- Québec has a very dynamic venture capital and development capital industry;
- infrastructures are modern and adapted to the requirements of the new millennium;
- Québec has access to the North American market, which is one of the richest, most diversified and fastest-growing in the world. Quebecers are in favour of opening up markets;

- cooperation and solidarity are key features of Québec society;
- its peaceful, safe environment, very rich multicultural life and low cost of living offer a quality of life that is enviable when compared with that of the United States or countries in Europe or Asia.

These advantages are not very well-known, however. If it is to be considered by foreign decision-makers as one of their first choices as a location, Québec must project a strong image that sets it apart from its competitors. It will have to sell itself better so that it becomes known and acknowledged abroad as a choice investment location in North America.

Scattered government efforts reduce the effectiveness of promotion and assistance measures

Many of the Québec government's departments and agencies are actively promoting investment and welcoming and supporting investors. These investors may have to deal with all sorts of government representatives in the course of the steps they take. Businesses must therefore provide each of them with the often similar information they ask for. What is more, those in charge of government intervention may act on their own and make proposals to businesses, without any coordination between them.

In addition, the government notes that the lack of coordination between its representatives and the disjointed nature of intervention and support measures are liable to confuse businesses that want to invest in Québec.

At present, these factors reduce the impact and effectiveness of government action vis-à-vis investors, which can lead to lost opportunities.

3.1 Opening a single information centre for investors

Investissement-Québec: a single information centre for investors who need government support

To solve the problems touched on above, the government considers that resources, canvassing and financing assistance measures need to be consolidated in order to strengthen government action.

The government is therefore announcing the creation of Investissement-Québec, a government corporation with the fundamental mission of promoting investment in Québec. It will also act as the Québec government's only interlocutor for investors who need its assistance.

In addition to cutting down on certain irritants and improving investment incentives, this single information centre for investors will lead to greater flexibility, and will improve government leadership with respect to investment promotion, and canvassing and reception of investors.

Formerly, government measures were often ad hoc or short-term, and this could create uncertainty for the business. Investissement-Québec will be sending the clear message to investors that the government wants to ensure permanent investment promotion, prospecting and support activities.

This corporation will be formed by consolidating all the personnel working in the Direction générale des investissements étrangers at the Ministère de l'Industrie, du Commerce, de la Science et de la Technologie (MICST) and in the Société de développement industriel (SDI). In other words, a new agency will not be created because the SDI, as it has been known for over 25 years now, will be integrated with the new government corporation. In addition, the Garantie-Québec component of the SDI will continue to exist under the new agency and will be managed by a subsidiary of Investissement-Québec. Two essential and specific roles will be assigned to Investissement-Québec.

3.1.1 Coordination role

First of all, Investissement-Québec will act as a coordinator of government actions dealing with reception and financing assistance for major investment projects.

Regarding reception, the initial contact between the business and the government is very important. The business is entitled to expect quality assistance. When it needs information about Québec for site analysis for instance, it must have reliable, up-to-date information that is comparable with that offered in the other locations being considered. If this information is not available, or the investor has to wait too long to get it, then Québec is liable to be crossed off the list of prospective sites. In addition, reception needs to be personalized. The business must be given a presentation that is tailored to its specific needs.

Investissement-Québec will look after requests for information or assistance from businesses, getting the information required from the government or other parties concerned.

Investissement-Québec will look after investors and help them though the different stages of the process

Furthermore, reception of investors must include effective help and support through the stages of the process so that the government can ensure that a project satisfactory to everyone emerges. This process must lead to a decision being made as quickly as possible because international competition is extremely fierce for investors. The responsibilities of Investissement-Québec will include the following:

- submitting the project to the sectoral department concerned so that it can evaluate its timeliness;
- finding government programs that might provide support for the project;
- getting the information required by all government parties from the business;
- evaluating the assistance available under programs for which it is responsible as well as eligible tax credits;
- getting other government parties to evaluate the potential supply of financing under their programs within specific time limits;
- accompanying the business' representative to meetings required between the business and departments and agencies.

Presenting the business with a package

To sum up, Investissement-Québec will be responsible for offering the business investor a financing package that is tailored to its specific needs in terms of financial, manpower training and infrastructure assistance and for helping to find a potential local partner. In a word, it should be a package that shows the business that it is decidedly to its advantage to invest in Québec.

3.1.2 Investment promotion and prospecting role

Once Québec is known, there is more likelihood of investment opportunities materializing

Second, Investissement-Québec will promote Québec abroad in order to attract foreign investment and increase domestic investment.

Pointing out the advantages of choosing Québec over another location is a crucial part of attracting foreign investors. Routine canvassing has confirmed that when the investor knows about the opportunities that Québec offers, the chances of its selecting it are much better.

Investissment-Québec will mobilize some of its resources in cooperation with other investment promotion and prospecting partners, such as the SGF and Montréal International, in order to substantially improve Québec's profile abroad.

To convince potential investors to choose Québec for their major projects and so that the number of investment and reinvestment projects will increase, systematic canvassing needs to be done. Investissment-Québec will prepare targeted strategies, and prospecting and marketing plans, and will organize strategic monitoring operations for pinpointing potential new investors or interesting business opportunities. This job will be done in close cooperation with the sectoral departments concerned.

A better directed and harmonized message will position Québec advantageously among the many parts of the world trying to attract international investment.

Canvassing and promotion should also apply to businesses already established in Québec

For businesses already established in Québec, Investissement-Québec will carry out promotion activities directed towards regional parties and business people. A large share of investments here are made by foreign corporations already operating in Québec. Relations with these important contributors to economic development are all too often neglected, however. It is extremely important to take good care of the clients we already have before targeting new ones. Investissement-Québec will lend its support to these businesses, when they are working on obtaining global mandates or preparing expansion, modernization or research projects for example.

In addition to prompting new investment, it is important to help businesses with good potential for Québec's economy to stay in operation if they run the risk of closing, for any number of economic reasons, or show an interest in divestment. To avoid the closing or moving of decision-making units outside Québec, Investissement-Québec, in cooperation with the sectoral departments, will develop strategies aimed at finding and keeping these businesses in Québec.

With respect to investment promotion and prospecting, it is essential that the Québec government earmark resources that are at least equivalent to those of its main competitors. In order to carry out its mandate properly, Investissement-Québec will dispose of an additional, recurrent source of funding in the amount of $10 million per year.

3.1.3 Strategic role of sectoral departments

Close cooperation between Investissement-Québec and sectoral departments

The Québec government sectoral departments have always played an important role in economic development. The main departments concerned are: the ministère de l'Industrie, du Commerce, de la Science et de la Technologie (MICST), the ministère des Ressources naturelles (MRN), the ministère de la Culture et des Communications (MCC), the ministère de l'Emploi et de la Solidarité (MES), the Secrétariat au développement des régions (SDR), Tourisme-Québec and the ministère de l'Agriculture, des Pêcheries et de l'Alimentation du Québec (MAPAQ).

As mentioned earlier, Investissement-Québec will work closely with the sectoral departments known for their expertise; they are indispensable.

The cooperation of these departments will be essential, among other things, for the following:

- taking part in strategies promoting Québec as an advantageous investment site;
- producing sectoral opinions regarding project timeliness;
- approving assistance attributable under their respective programs;
- doing strategic monitoring to make sure that businesses stay in Québec;
- pinpointing interesting projects;
- ensuring that Investissement-Québec's objectives are abided by regionally.

The sectoral departments must be adequately represented on the board of directors of Investissement-Québec. The MICST will, however, have preponderant representation because of its role in the government and the scope of its activities.

The government is convinced that setting up Investissement-Québec will mobilize all private and public partners active in investment promotion, prospecting and support, and will provide the leadership required to consolidate efforts to bring in more projects that create jobs.

3.1.4 Financing assistance

Assistance programs: an indispensable tool for attracting investors

Many of Québec's competitors, including several states in the US and many countries in Europe, have introduced elaborate and often generous programs to attract more investors. Québec cannot afford to trail behind. It must offer assistance that is at least as advantageous as that offered by its competitors. Tax measures and financial assistance can both increase the profitability of an investment project and act as a determining factor when the time comes to decide to invest.

Over the past year, the government has introduced two programs to encourage new private investment: the Industrial Development Fund (IDF) and the Private Investment and Job Creation Promotion Fund (PIJCPF).

Although no major promotion activities have been undertaken yet, these programs have been very successful so far and have led to the finalization of nearly $2.5 billion in projects. The IDF and PIJCPF have reached 100% and 94% of their objectives respectively.

Despite these positive results, a few points need to be ironed out in order to improve the effectiveness of these assistance tools. It would appear to be preferable to merge the PIJCPF and FDI and entrust Investissement-Québec with their management. The standards for these programs will be harmonized. The new standards will make it possible for Investissement-Québec to support major export projects.

PIJCPF: $5 billion in investments

In addition, the activities of the new PIJCPF will be extended by five years, with an envelope of $500 million, which should generate $5 billion in investments.

Increasing manpower training assistance in connection with major investment projects

A skilled labour force is an increasingly important factor in the choice of an investment location for a major project. Québec has a highly qualified, stable work force it can count on, which is a major asset where attracting investors is concerned, especially in new economy sectors. However, this manpower must adjust to the new realities entailed by establishment of a new business in conjunction with a major investment.

More and more, major investors are being offered all sorts of manpower upgrading, training and retraining assistance by governments.

It is important, for increasing investment growth and job creation, to expand the means the Québec government has at its disposal to enhance the capacity of labour to adapt in conjunction with major investment projects.

Every year for five years, up to $40 million will be devoted by the ministère de l'Emploi et de la Solidarité to manpower training and upgrading for major investment projects that could total as much as $500 million. Applications for financial assistance will be submitted to the Commission des partenaires du marché du travail for approval and this board will decide on Emploi-Québec's contribution, in keeping with the anticipated impact of the investment project on employment.

3.2 Garantie-Québec

3.2.1 Financial product

Continued financing assistance for small and medium-sized businesses

Investissement-Québec will have a subsidiary with the specific mandate of financing small and medium-sized businesses, a major source of investment and new jobs. The new financial assistance program known as Garantie-Québec, set up in 1996, will continue to offer loan guarantees as its chief financial product. This approach is aimed at responding to the new requirements of the financial market which, since the last economic recession, limited access to financing for businesses, and small and medium-sized businesses especially, because of a lack of insufficient collateral and guarantees.

By joining forces with the main financial institutions in order to share the risks inherent in any research and development, export, growth or investment project, Garantie-Québec meets the contemporary needs of businesses. It therefore acts as an incentive and works in tandem with the financial market by stimulating competition among financial institutions and aiming for fair sharing of the risk.

3.2.2 New orientations

The context for supplying business with financing has changed quickly in Québec, especially over the past ten years. New actors have appeared on the stage and new business requirements have emerged. The venture capital and development capital industry has grown enormously, fostering the advent of certain sectors in the new economy and laying the groundwork for the development of certain industrial firms whose growth would have been impeded by traditional financing methods.

The financing requirements of small and medium-sized businesses are increasingly varied, particularly as a result of the new economy and its substantial R& D financing needs. Other factors, such as the growing contribution of small and medium-sized export companies to economic development and the creation of new businesses that cannot be completely financed by capital stock, will require an appropriate, rapid and flexible response from the Garantie-Québec subsidiary in order to meet these requirements. Garantie-Québec must also develop more and more expertise in new niches, such as export financing.

A $1.3 billion interest in projects undertaken by small and medium-sized businesses

It is therefore important for the institutional and operational framework of Garantie-Québec to be flexible, in order to allow it to play its full role as a business catalyst, to adapt its actions to suit the needs of small and medium-sized businesses and to the constantly evolving financial market, and to maximize economic spin-offs. The mandate, management framework and financing procedure of the Garantie-Québec subsidiary will therefore be adjusted in keeping with the new economic environment and to ensure that they are consistent with the government objectives with respect to economic development.

Over the next five years, the objective of Garantie-Québec will be to contribute to the financing of $1.3 billion in investment projects undertaken by small and medium-size businesses in Québec. This objective excludes the financing of tax credits and lines of credit for exports.

3.3 Financing of Investissement-Québec

Financing procedure centred around results

Investissement-Québec will have to have all the latitude it needs to fulfill its mandate effectively, react quickly to business requirements, and have the resources and expertise it needs to carry out its mission and meet the ambitious objectives which the government has set for it. Therefore, the legislation creating Investissement-Québec should give it management autonomy comparable to that of other government investment corporations. Under the new statute, the corporation will submit a three-year business plan for the government's approval. In particular, this plan will contain:

- the corporation's budgetary forecasts and terms for use of its revenue;
- policies for financial authorization and intervention;
- pay standards and scales, fringe benefits and other working conditions for personnel, with the understanding that remuneration will reflect merit and include performance bonuses;
- the terms for establishing the government contribution to the operating expenses of Garantie-Québec and the costs of assistance programs managed by the corporation.

The method of financing provided by Investissement-Québec will take the way in which the new corporation is organized into account. Basically, the SDI's current portfolio will be split in two:

- assistance for major projects through Investissement-Québec;
- assistance for small and medium-sized businesses through its subsidiary Garantie-Québec.

The government is asking the Garantie-Québec subsidiary to take on higher risks than a traditional financial institution so that it does not compete with these institutions and promotes economic development. Consequently, the guarantee program cannot finance itself. The gross losses of the Garantie-Québec program are estimated at 15% of the amounts guaranteed, while the corresponding revenue is at 8%. The government therefore promises to assume a portion of these program losses and sets its contribution at 7% of the authorized amount. Every year, it will record a provision expenditure for covering these losses. For the next five years, $75 million in appropriations are anticipated for this purpose. Since the government's contribution is determined beforehand, if Garantie-Québec cuts down on its program losses or increases its revenue, it will keep the difference. On the other hand, if the loss rate increases or revenue decreases, the subsidiary will have to shoulder the financial consequences.

The procedure for determining the government's contribution to operating expenses will be provided for in the three-year Investissement-Québec business plan. This contribution will reflect the volume of activities of the Garantie-Québec subsidiary. This means that if the business volume increases or the government entrusts Garantie-Québec with the administration of new programs, the government contribution to the operating budget will be adjusted accordingly. However, if the opposite is the case, the budgets will be reduced. Budgetary adjustments will be based on the following:

- the number of authorizations, weighted to take the work load for each intervention category into account (guarantees, loans, financing of tax credits, etc.);
- case follow-up, taking the balance of the portfolio under management into consideration;

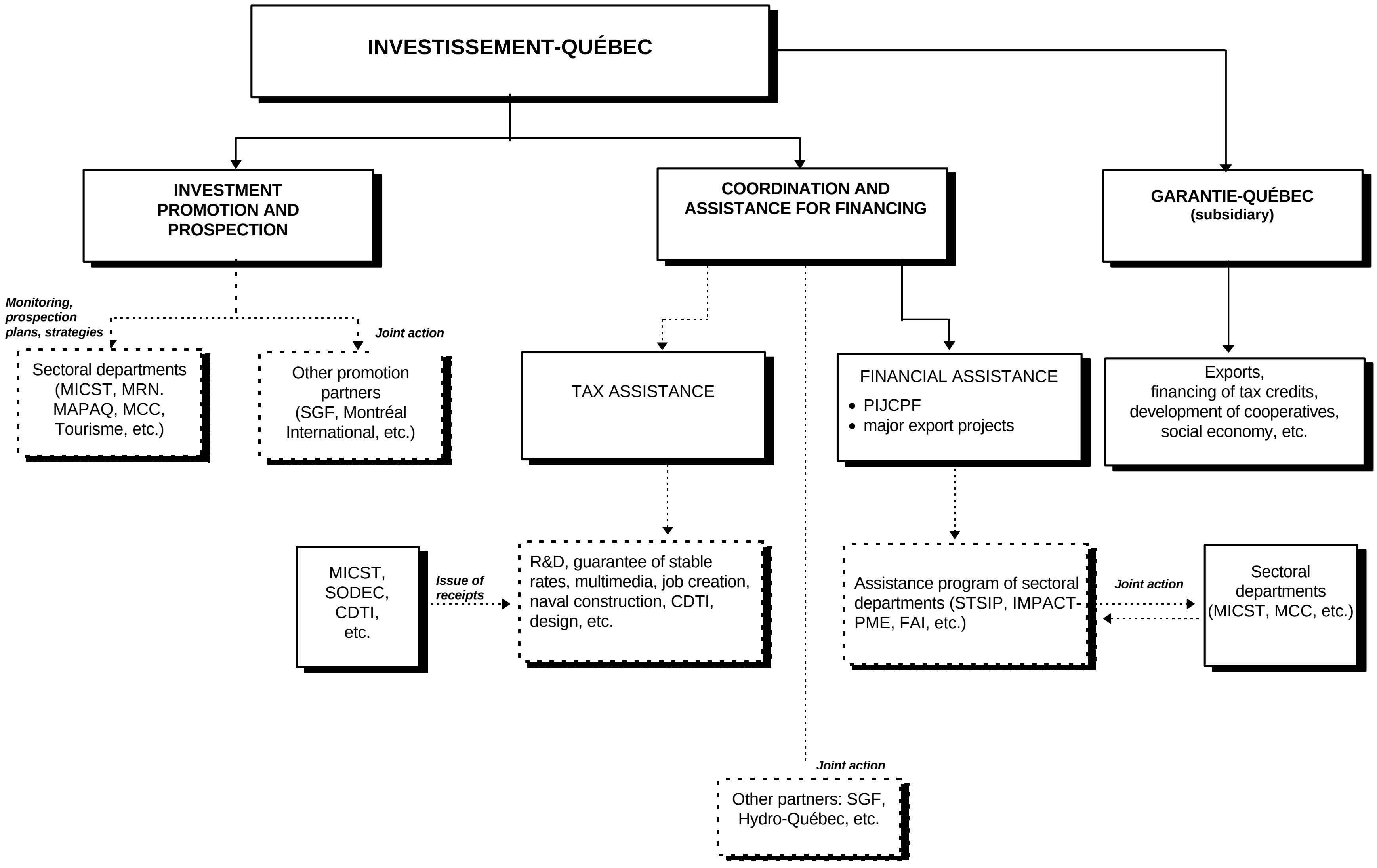
- the operating budget for a given year, established on the basis of results from the two previous years;
- the annual operating budget, adjusted for work load spreads of over 10% in relation to the reference year. For the three-year period, these adjustments must not exceed 20% of the budget for the reference year or $2 million, whichever is lower.

On another note, operating expenses for Investissement-Québec will be financed partly out of the revenue derived from financial assistance granted under the PIJCPF program and other forms of financial assistance for large businesses which it manages. The balance of its requirements will be financed by budgetary appropriations.

The whole method of financing Investissement-Québec will be reviewed at the end of a three-year period and adjusted if need be, depending on the findings.

The table on the next page illustrates how Investissement-Québec operates.

INVESTISSEMENT-QUÉBEC



4 *Developmental investments in resources*

4. DEVELOPMENTAL INVESTMENTS IN RESOURCES

4.1 Maintenance of government assistance for the mining sector

Québec's mineral potential is rich and varied, placing it among the top ten mineral producers in the world. With annual investments reaching $1 billion over the past three years, the mining industry is a key sector in the Québec economy. Its socio-economic impact is particularly important in Québec's resource regions, particularly Abitibi-Témiscamingue, Côte-Nord and Nord-du-Québec.

On March 31, 1998, the mining measures in the Program to Support the Economy and Create Jobs and the Canada-Québec Subsidiary Agreement on Mineral Development come to an end. The withdrawal of the federal government, which has already announced its intention not to renew the Subsidiary Agreement, represents in itself a reduction of about $8 million a year in support for the mining industry in Québec. In recent years, these mining measures contributed to nearly $1 billion in investments in a number of mining projects, creating or maintaining some 1000 jobs.

$200 million in investments in regional resources

The Québec mining industry has so far managed to meet the challenges of a changing environment. Its own vitality and government support have been decisive in this respect. The effects of globalization are nevertheless of concern. The industry must henceforth deal with strong competition from new producing countries, several of which have relaxed their laws governing foreign investment and created attractive mining regimes for business. The Québec government therefore plans to continue supporting the development of an innovative and competitive mining industry.

Additional appropriations of $18 million will therefore be granted over three years to support mining industry development.

These amounts will be used notably to foster and improve studies and work designed to discover new mining deposits, increase the processing of mineral substances, diversify mining production, implement public or private mining infrastructures in the context of mining deposit production projects, and enhance productivity and technological innovation. In the coming years, these specific measures should facilitate the start-up of a number of mining projects, for potential investments of at least $200 million, particularly in Québec's resource-rich regions.

Two tax measures will be introduced. The *Mining Duties Act* will be amended to create an additional allowance for processing mine tailings and to further encourage mining exploration in the north.

4.2 Extending the gas network

Over the past 20 years, gas distributors and governments have widely contributed to the development of the gas industry in Québec, in particular by setting up a supply and distribution network. Given its role in industrialization, natural gas has contributed to the economic development of a number of regions of Québec.

$50 million in investments in network development

Today, although natural gas is available in most of Québec, there are nevertheless regional markets that cannot be economically hooked up to the system. The distances that must be covered and the investments required are such that it is impossible to meet the profitability criteria the Régie de l'énergie must respect if it is to maintain reasonable rates for its customers.

The government has therefore decided to support projects designed to hook up those regions that do not yet have access to natural gas. It is estimated that these projects will require investments of close to $50 million.

The governmental assistance required to meet the profitability criteria of the Régie de l'énergie amounts to $8 million, that is, $3 million for 1998-1999 and $5 million for 1999-2000. The target regions are Saint-Hyacinthe, Coaticook, and the Outaouais and Québec regions. Close to 20 industrial parks will be served by this project.

The distribution activities of the Société en commandite Gaz Métropolitain inc. and Gazifère inc. in the Outaouais region are regulated by the Régie de l'énergie, which ensures that any extension of the network will be profitable and will not lead to an increase in rates across the board for users of natural gas.

Under the *Act respecting the Régie de l'énergie*, then, each of these extensions must be authorized by the Régie, which, through public hearings, will determine whether the projects are profitable.

This project calls for a significant contribution by the Québec private sector, specifically, 65% of the required investment. It is in line with Québec's energy policy, which states that the government will promote projects designed to hook up regions that do not yet have access to natural gas.

CONCLUSION

Business investment is a decisive factor in job creation. This is why concrete developmental measures have been advanced, with a view to promoting $19 billion in private investment over the next five years.

TABLE 4
INCREASING PRIVATE INVESTMENT
OBJECTIVE: $19 BILLION OVER 5 YEARS

Measure	Methods	Investment ($M)	Total cost
New SGF	• Creation of more consortia with the private sector • Minority interest; patient capital; government outlay: $2MM • Pro-active approach to project development (prospection, financial engineering, establishment and follow-up) • 10 target sectors: metals and minerals, transportation equipment, recreational tourism, agri-food industry, health, chemicals technology, machinery, industrial logistics	10 000	- [1]
Innovatech and other government corporations	• Accelerating the start-up of technological SMBs • Minority interest • Creation of Innovatech Régions ressources • SODEC: creation of SODEC financière in cooperation with the private sector; financing of projects to distribute large-scale cultural productions on the world market • SDBJ: promote economic diversity	1 650	- [1]
Investissement-Québec	• Package for investors • Prospecting for foreign investments • 5-year extension of PIJCPF for projects that are worth over $10M or create at least 100 jobs, and projects worth over $2M that create at least 50 jobs in the multimedia sector, call centres or the mining sector • Types of assistance: payment of interest, subsidy per job created, loan guarantees • Main sectors: metallurgy, chemicals, forest products, tourism and technology	5 000	500
Garantie-Québec	• Loan guarantee for SMB investment projects • Credit line for exports • Financing of tax credits	1 300	75
Emploi et Solidarité	• Manpower training assistance (max.: $40M/year)	800	160
Natural ressources	• Assistance for studies and work in the mining industry • Extension of the gas network	250	26
Total		**19 000**	**761**

1 Return superior to the cost of government funding.

1998-2002 INVESTMENT OBJECTIVE: $19 MM