

The strength of the regions

An essential link
in our economy

The Strength of the Regions

*An essential link in our
economy*

*Resource Regions Economic
Development Strategy*

FOREWORD

By the Deputy Prime Minister and Minister of State for the Economy and Finance

In recent years, the Québec economy has undergone profound transformations that have enabled it to diversify its activities, enhance its productivity and experience remarkable success on foreign markets.

Although the resulting economic growth has benefited all Québec regions, there are still relatively wide disparities in unemployment between the resource regions—whose economies are closely tied to the development of natural resources—and the other regions of Québec.

These disparities, which are not a recent phenomenon, are explained by a whole series of factors, both geographic and economic. Such a situation is, however, unacceptable, particularly since the resource regions have very high development potential. Realizing that potential would enable them to benefit from stronger economic growth and more vigorous job creation, and to thereby make a greater contribution to the collective wealth.

*The **2001-2002 Budget Speech** provides an opportunity to give the resource regions a powerful boost. With this Budget, the government is equipping them with the tools they need to effectively play their role in the collective creation of wealth. The government is presenting an ambitious strategy and a set of measures geared to the needs and priorities of the resource regions, placing at their disposal a total of nearly \$800 million in the next three years.*

This action will significantly broaden and strengthen the major regional development initiatives put in place in the last few years. It will bolster an ambitious strategy that, I am certain, will have a rapid impact on the vitality of Québec's resource regions.

In embarking on these major initiatives, the government is taking steps to accelerate the economic development of the resource regions in order to place them on a par with Québec as a whole. All the regional economic players will seize this opportunity to become keenly involved in the effort that the government proposes to undertake.

PAULINE MAROIS

Summary

SUMMARY

The government has made a major effort in recent years to place the appropriate development tools at the disposal of the resource regions. The **2001-2002 Budget Speech** is an opportunity for the government to significantly strengthen this effort by taking vigorous steps in favour of these regions.

A profile of Québec and of its resource regions

Seven regions are considered resource regions: Gaspésie–Îles-de-la-Madeleine, Bas-Saint-Laurent, Côte-Nord, Nord-du-Québec, Saguenay–Lac-Saint-Jean, Abitibi-Témiscamingue and Mauricie. These regions form a geographic and economic unit with common features and problems.

Disparities in income and unemployment rates, to the detriment of the regions, have been observed in Québec for a very long time. Even though they have tended to narrow over the years, they are still significant.

Common problems that impede economic development

The resource regions face three main economic difficulties:

- The economy of the resource regions is insufficiently diversified. For instance, manufacturing activities are less developed than in Québec as a whole.
- In the resource development sector, the regions face a difficult international situation that particularly impacts on the forest and mining sectors.
- The businesses that operate in the regions or that would like to invest there do not have certain tools adapted to their needs, particularly in terms of financing.

These problems exacerbate and fuel other difficulties, particularly demographic ones.

Initiatives taken

The government has already taken substantial steps to bolster the development of the regions. Two major policy statements have reinforced the government's action in this regard. The government strengthened the local economic development agencies when it set up the local development centres (CLDs).

The creation of the regional solidarity funds, the local employment development investment corporations (SOLIDEs) and the Société de diversification économique des régions (SDER) improved local and regional financing networks.

Revision of the role and organization of government investment and venture capital corporations—the Société générale de financement, Investissement Québec, Innovatech Régions ressources—has also had a direct impact on the regional economy.

In the *2000-2001 Budget Speech*, the government earmarked sizeable amounts to support the development of the regions. A number of specific tax measures were defined, such as the Carrefours de la nouvelle économie (CNEs), the refundable tax credit for the Vallée de l'aluminium and the refundable tax credit for Gaspésie—Îles-de-la-Madeleine and certain maritime regions.

These initiatives had a tangible impact on job creation and investment. However, they must be extended and amplified if the development gap separating the resource regions from the rest of Québec is to be further reduced.

Three focuses chosen

The resource regions economic development strategy, under which the action that the government is embarking upon has been defined, has three main focuses:

- First, the government is intervening to increase the value-added and accelerate the diversification of the economy of the resource regions. This effort requires, in particular, that a larger critical mass of manufacturing industries be achieved.
- Second, action is being taken to ensure the growth of the natural resource sector.
- Third, the government is placing at the disposal of the regions a number of additional financial tools that directly meet their needs.

The economic development strategy and the focuses defining it will be implemented through the involvement of the various agencies and authorities concerned. This paper describes the general measures that the government is implementing in the resource regions as a whole. In the coming weeks, specific initiatives for each resource region will be presented in that region.

First focus: Increase the value-added and accelerate the diversification of the economy

The first focus consists in budgetary and tax measures aimed at:

- supporting manufacturing activities;
- supporting the secondary and tertiary processing of resources;
- ensuring diversification through the establishment of new activities and the development of niches of excellence.

▪ *Zero tax for 10 years for SMEs in the manufacturing sector*

A major tax measure, zero tax for SMEs in the manufacturing sector comes into effect immediately, in order to strengthen the manufacturing fabric and buttress future industrial development.

SMEs¹ in the manufacturing sector that are operating in remote resource regions will benefit from an income, capital tax and general payroll tax holiday.

The tax holiday is in effect until December 31, 2010. It targets SMEs engaged in manufacturing and processing activities. This measure means an injection, over the next three years, of \$147 million for businesses in the resource regions.

▪ *Secondary and tertiary processing*

A second major tax measure, the refundable tax credit for manufacturing and processing activities in the resource regions, is introduced. This tax credit will significantly reduce the payroll costs of businesses engaging in certain specific activities during a period of five years. The tax credit will inject some \$65 million into the economy of the regions in three years.

The government will also provide budgetary support for investments aimed at increasing the value-added of local products. This support is specifically for the processing and development of agricultural products in the regions.

¹ The paid-up capital of these enterprises may not exceed \$10 million. Enterprises with paid-up capital of between \$10 million and \$15 million may claim a partial tax holiday.

▪ ***Introduce new activities, develop niches of excellence***

A number of budgetary actions are being taken by the government to accelerate diversification through the introduction of new activities. The government will devote nearly \$142 million to these initiatives in the next three years. This will encourage entrepreneurs to invest in new avenues for development. The development of new tourism products will be stimulated.

Specific measures are introduced with a view to developing niches of excellence in the resource regions or to build new ones. A fund to support the development of niches of excellence is being set up for that purpose.

Second focus: Measures to ensure the growth of the resource sector

Two major budgetary measures are introduced to support the sustainable development of forest resources. The government will devote budget appropriations of \$126 million for that purpose.

This action will be taken in the framework of the forest resource development program and the forest job creation program.

The government is also embarking on a series of tax measures to encourage mining exploration. A refundable tax credit for mining exploration firms is introduced. It will inject \$34 million annually into this sector of activity. This new tax credit replaced the former flow-through share plan.

In partnership with the Fonds de solidarité FTQ, the government is creating the Fonds de diversification de l'exploration minière. The government is renewing and extending to the other regions the mining exploration financial assistance program set up in 2000-2001 in Abitibi-Témiscamingue. Other budgetary measures for the same sector of activity are also being implemented.

In the fishing resource sector, fishing has begun to recover with the awarding of grants for the modernization of fishing boats.

Third focus: Facilitate the financing of SMEs and the creation of businesses

The government will invest \$170 million in the next three years to facilitate the financing of SMEs and the creation of businesses in the resource regions.

Funds will also be earmarked to reinforce the capacity for action of the CLDs and women's entrepreneurship. Other actions are being taken for the retention and expansion of businesses and for the hiring of young graduates.

The resource regions must also have financial tools that are better adapted to their needs. The government is therefore extended to all resource regions the economic projects support program (PSPE).

Budgetary appropriations will be earmarked for the assistance program for waste management businesses and to support the financing of leasehold improvements to industrial buildings.

The government will also introduce a major tax measure to support the creation of the Fonds Capital régional et coopératif Desjardins. This capitalization instrument will be aimed at both SMEs and cooperatives, and will have minimal obligations to meet in terms of investment in the resource regions.

Significant support for the economic development of the resource regions

All told, the government will devote **\$788 million** in the next three years to the implementation of the three focuses.

The table below provides a summary of the financial impact of these different measures for the government.

- The budgetary measures slated for the next three years will have a financial impact of **\$461 million**, while the tax measures will have a financial impact of **\$327 million**.
- In the case of the tax measures, it should be stressed that, when they are fully implemented, they will provide the resource regions with support of **\$178 million a year**.

FINANCIAL IMPACT OF TAX AND BUDGETARY MEASURES ON THE RESOURCE REGIONS
 (in millions of dollars)

Measure	2001-2002*	2002-2003	2003-2004	Total
Value-added and diversification of the economy				
Zero tax for manufacturing SMEs**	41	52	54	147
Tax credit for secondary and tertiary processing	7	21	37	65
Diversification of the economy and niches of excellence	41	64	38	142
Ensuring the growth of the natural resource sector				
Support for forest resource development	61	33	33	126
Support for mining exploration	36	51	51	138
Facilitating the financing of SMEs and the creation of businesses	<u>51</u>	<u>64</u>	<u>55</u>	<u>170</u>
Total	237	284	267	788

Note: The sum of the amounts may not correspond to the total, because of rounding-off.

* Including the budgetary measures totalling \$40.3 million in 2000-2001.

** The paid-up capital of these enterprises may not exceed \$10 million. Enterprises with paid-up capital of between \$10 million and \$15 million may claim a partial tax holiday.

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Introduction

INTRODUCTION

Although all Québec's regions have benefited from the improvement in economic conditions over the last few years and have seen their unemployment rate drop, that rate is still at an unacceptable level in certain regions. In regions where natural resources are developed and produced, significant disparities in unemployment and in economic development are still found. Progress has definitely been made and the regions have done some catching up, but more must be accomplished.

Québec's resource regions are faced with a number of economic problems. Their economies, which are based for the most part on the extraction and primary processing of natural resources, are engaged in a structural trend that affects the entire natural resource market on an international level. Secondary and tertiary processing activities, and more broadly, the manufacturing sector do not have the status they should hold in these regions. Coupled with this insufficient diversification are shortcomings in access to certain development tools, be it in terms of financing or of entrepreneurship.

Over the last few years, the government has made a major effort to equip the regions, particularly the resource regions, with appropriate development tools. The **2001-2002 Budget Speech** provides an opportunity for the government to strengthen those tools through a vigorous effort. The objective is to ensure that these regions fully benefit from the current prosperity, by capitalizing on their development potential to ensure that they achieve the required catching-up. Hence, it is a matter of reinforcing the current economic foundations, encouraging the emergence of new sectors of activity and finding additional ways of increasing innovations, investments and exports.

The government is therefore announcing, in the framework of the Budget, an economic development strategy and a series of both budgetary and tax measures, designed for the resource regions. The purpose of this paper is to explain the nature of and the rationale for the measures that the government is implementing, after describing the situation that must be corrected and explaining the focuses that the situation requires.

This paper is divided into three distinct parts:

- Part I profiles Québec's resource regions, pointing out, in particular, the problems they are confronting and the steps that the government has already taken to resolve them.
- Part II is devoted to the economic development strategy that the government has determined.

- Part III presents and explains the various actions announced in the **2001-2002 Budget** as part of the resource regions development strategy. These actions, broken down according to the focuses determined, constitute major initiatives whose impact on the regional economies should be rapid and substantial.

Broadly speaking, the purpose of the government's intervention is to accelerate the economic development of the resource regions, which must be well distributed, not only for reasons of fairness, but also because the creation of wealth and the development of Québec's economy would not be complete without the participation of each of these regions.

Part I

Québec and its resource regions

QUÉBEC AND ITS RESOURCE REGIONS

Québec's resource regions form a geographic and economic entity with common features and problems. The following four chapters review these features and problems, before describing the measures the government has already taken to support regional development.

- The first chapter, which focuses on Québec's territory, gives a brief description of the resource regions and views them from the perspective of Québec as a whole.
- The second chapter analyzes the economy of Québec and of the regions over the last decade. The analysis places particular emphasis on trends in regional disparities.
- The third chapter identifies the problems common to the resource regions – problems that hamper their economic development.
- The fourth chapter describes the various types of support provided by the Québec government for the regions, especially the resource regions, to stimulate their development.

1 Québec's territory

CHAPTER 1 – QUÉBEC'S TERRITORY

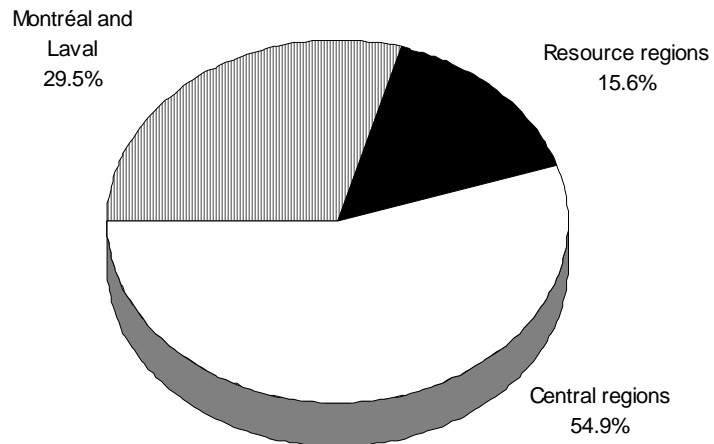
Québec currently has 17 administrative regions. With the exception of Mauricie and Centre-du-Québec, which were formed in 1997 by splitting the Mauricie–Bois-Francs region in two, the boundaries of these regions were set in 1987. Their demographic weight and surface area vary widely, as shown in Table 1 on the following page.

The administrative regions of Québec can be divided into three groups that are very different from each other in terms of their economic structure and development conditions:

- the resource regions are Gaspésie–Îles-de-la-Madeleine, Bas-Saint-Laurent, Côte-Nord, Nord-du-Québec, Saguenay–Lac-Saint-Jean, Abitibi-Témiscamingue and Mauricie;
- the central regions are the Capitale-Nationale, Outaouais, Estrie, Chaudière-Appalaches, Centre-du-Québec, Laurentides, Lanaudière and Montérégie;
- lastly, the regions of Montréal and Laval form a separate entity.

GRAPH 1

DEMOGRAPHIC WEIGHT OF REGIONAL GROUPS – 2000 (as a percentage)



Source: Institut de la statistique du Québec.

The resource regions account for 15.6% of the population and 13.7% of jobs in Québec. The economy is particularly dependent on the extraction and primary processing of resources, whose production is mostly shipped outside Québec. All things being equal, there are fewer manufacturing jobs in resource regions than elsewhere in Québec, and the same holds true of jobs in the more specialized services.

With 54.9% of Québec's population, the central regions have relatively well diversified economies. In general, the manufacturing sector plays a greater role there than in Québec's other regions.

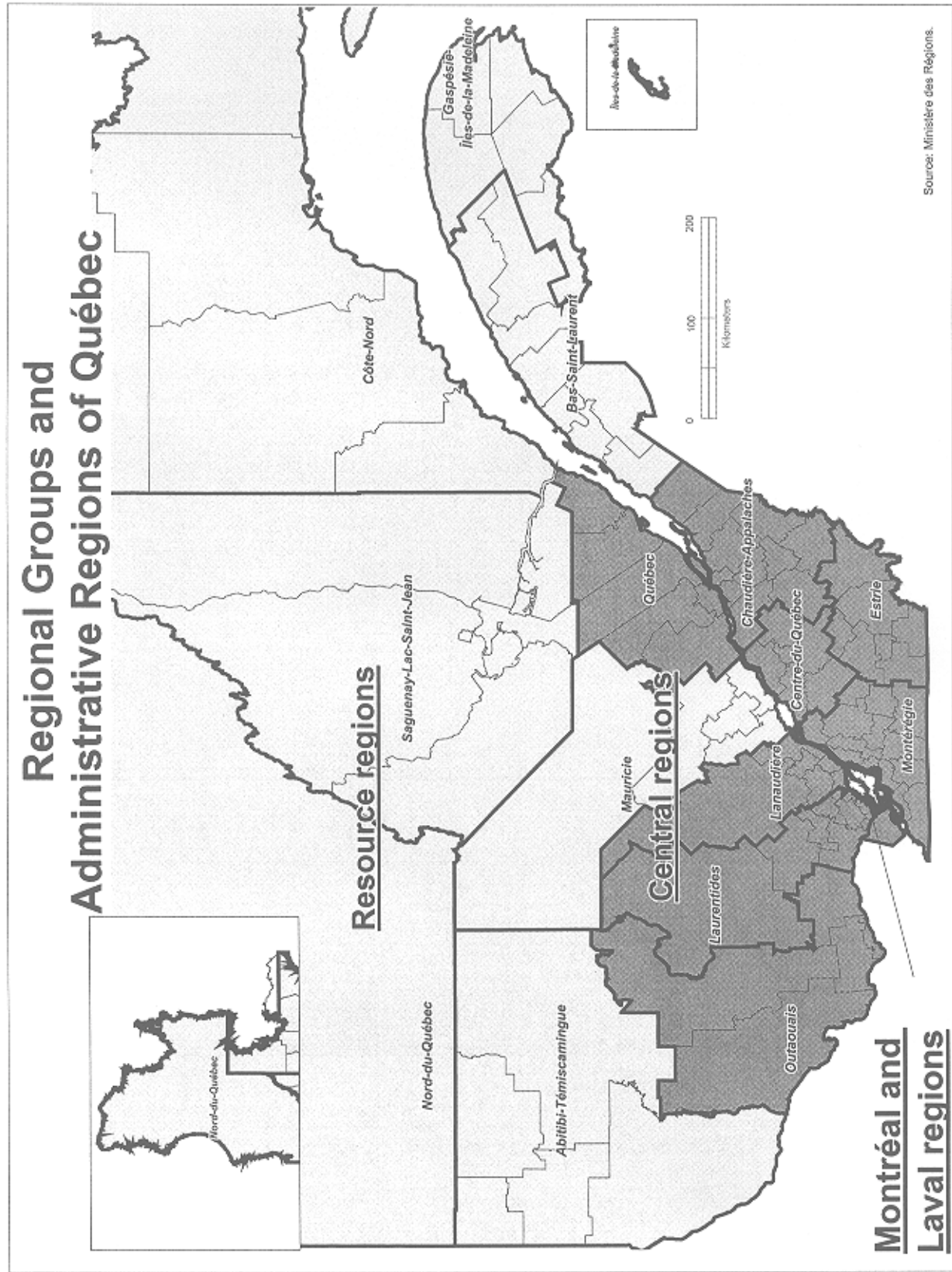
Lastly, the regions of Montréal and of Laval are different from the other regions in economic terms because of the low percentage of jobs in the primary sector, a high proportion of technology-intensive manufacturing jobs and the preponderant role of the tertiary sector in the economic structure.

TABLE 1

**POPULATION AND SURFACE AREA OF QUÉBEC'S
ADMINISTRATIVE REGIONS – 2000**

Region	Population (number)	Demographic weight (%)	Surface area (km²)	Density (inhabitants per 100 km²)
1. Bas-Saint-Laurent	204 308	2.8	22 404	912
2. Saguenay–Lac-Saint-Jean	286 665	3.9	104 018	276
3. Capitale-Nationale	646 218	8.8	19 312	3 346
4. Mauricie	262 212	3.6	39 736	660
5. Estrie	288 530	3.9	10 145	2 844
6. Montréal	1 825 527	24.8	499	365 837
7. Outaouais	319 879	4.3	32 946	971
8. Abitibi-Témiscamingue	152 549	2.1	65 143	234
9. Côte-Nord	102 146	1.4	298 471	34
10. Nord-du-Québec	39 450	0.5	839 696	5
11. Gaspésie–Îles-de-la-Madeleine	101 793	1.4	20 621	494
12. Chaudière-Appalaches	389 578	5.3	15 136	2 574
13. Laval	349 172	4.7	245	142 519
14. Lanaudière	397 112	5.4	13 499	2 942
15. Laurentides	468 912	6.4	21 587	2 172
16. Montérégie	1 317 163	17.9	11 176	11 786
17. Centre-du-Québec	221 234	3.0	6 986	3 167
Québec as a whole	7 372 448	100.0	1 521 620	485
- Resource regions	1 149 123	15.6	1 390 089	83
- Central regions	4 048 626	54.9	130 787	3 096
- Montréal and Laval	2 174 699	29.5	744	292 298

Source: Institut de la statistique du Québec.



2 *Review of the economy of Québec and the regions*

CHAPTER 2 – REVIEW OF THE ECONOMY OF QUÉBEC AND THE REGIONS

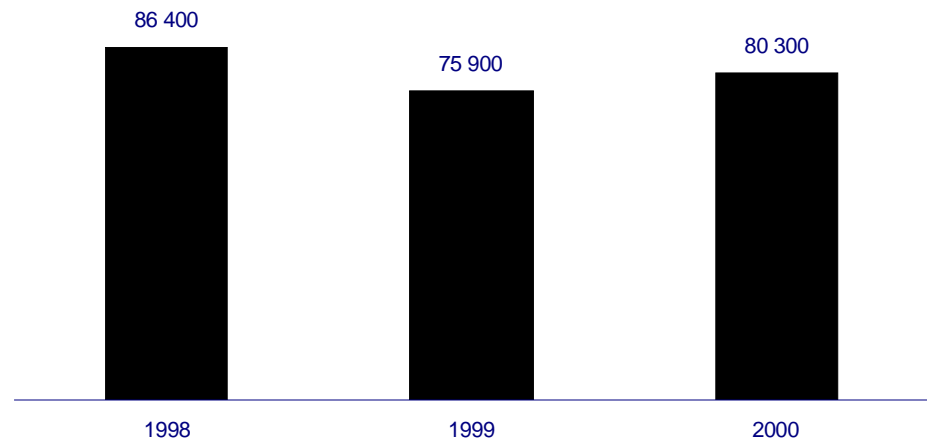
2.1 Economic expansion that has benefited all of Québec

Like the other North American economies, Québec is currently enjoying its longest uninterrupted post-war period of economic growth. The growth rate has also risen from 1997 to 2000, averaging 3.8% a year, i.e. about double the average rate of growth over the last 20 years.

This vigorous economic growth has resulted in the creation of slightly more than 80 000 jobs a year on average in Québec since 1998. This is the best job-creation performance over a three-year period since the mid-1980s.

GRAPH 2

VIGOROUS JOB CREATION IN QUÉBEC SINCE 1998 (number)



Source: Statistics Canada.

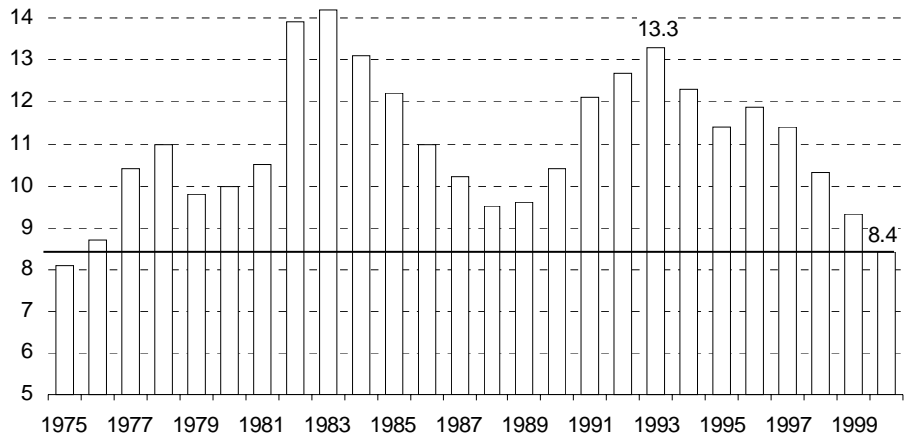
Accordingly, Québec's economy is now in the best shape it has been in over a decade. Among the signs pointing to the economic progress made, two of the main labour market indicators are especially striking:

- The unemployment rate is at its lowest level in 25 years.

GRAPH 3

LOWEST UNEMPLOYMENT RATE SINCE 1975

(as a percentage)



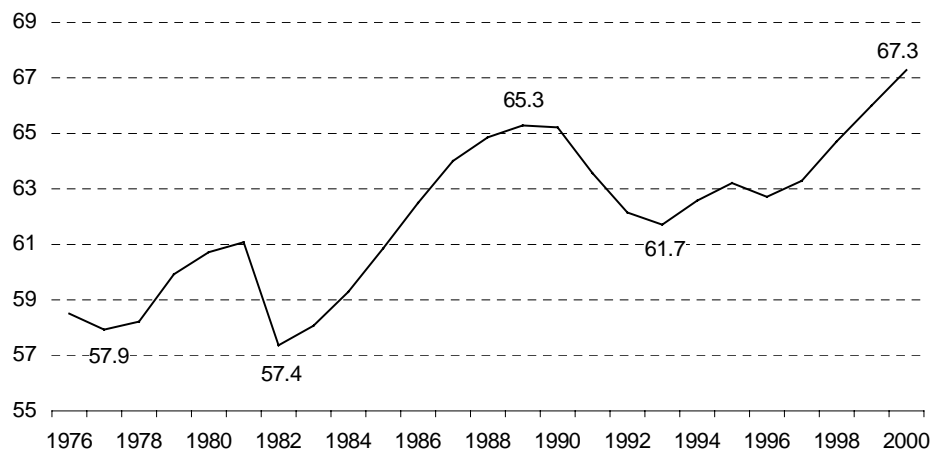
Source: Statistics Canada.

- The employment rate for 15-to-64-year-olds, i.e. the percentage of the population of this age group that has a job, stood at 67.3% in 2000, exceeding the previous high, set in 1989, by two percentage points.

GRAPH 4

EMPLOYMENT RATE OF 15-TO-64-YEAR-OLDS AT A RECORD HIGH

(as a percentage)



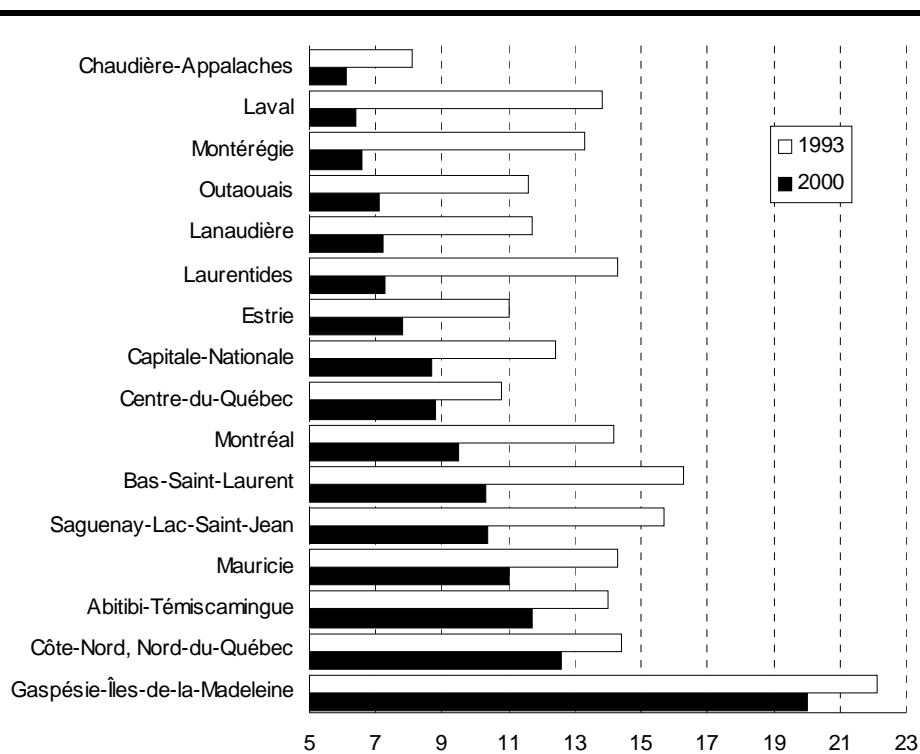
Source: Statistics Canada.

Every region has benefited from the improved economic situation in Québec. Unemployment has fallen sharply in all regions of Québec in recent years.

GRAPH 5

SHARP DROP OF THE UNEMPLOYMENT RATE IN EVERY REGION SINCE 1993

(as a percentage)



Source: Statistics Canada.

Since 1993, the unemployment rate has fallen most substantially in the Laval (-7.4 percentage points), Laurentides (-7.0), Montérégie (-6.7), Bas-Saint-Laurent (-6.0) and Saguenay-Lac-Saint-Jean (-5.3) regions.

2.2 Signs of convergence among the regions

For a variety of reasons, having to do with history, climate, geography and economics, often substantial disparities in economic development exist among regions, in Québec just as elsewhere. Differences in income and unemployment rate have been observed in Québec for a very long time. However, they have tended to decline over the years.

Convergence of per capita personal disposable income

Per capita personal disposable income² is one of the major indicators generally used to compare regional standard of living.

■ *Income disparities*

In the early 1960s, the income disparities among Québec's regions were relatively large: per capita disposable income ranged from a low of 55% to a high of 122% of the Québec average respectively in the Bas-Saint-Laurent–Gaspésie, and Montréal regions.

TABLE 2

DISPARITIES IN PERSONAL DISPOSABLE INCOME AMONG THE REGIONS OVER MANY YEARS

(per capita disposable income, Québec = 100)

	1961	1971	1981	1989	2000*
Resource regions	66	76	86	86	88
- Bas-Saint-Laurent and Gaspésie	55	65	69	82	82
- Saguenay–Lac-Saint-Jean	72	77	91	86	89
- Abitibi-Témiscamingue	68	82	88	92	94
- Côte-Nord and Nord-du-Québec	92	96	111	87	91
Other regions	107	104	101	102	102
- Mauricie–Bois-Francs	77	86	84	91	91
- Greater Québec City region	81	96	88	98	99
- Estrie	77	91	85	93	96
- Outaouais	83	90	95	98	92
- Greater Montréal region	122	110	108	106	104

* Preliminary estimate by the Institut de la statistique du Québec.

Sources: Office de planification et de développement du Québec, Institut de la statistique du Québec, Statistics Canada and ministère des Finances du Québec.

Since then, these disparities have narrowed: income in most regions, the resource regions in particular, has moved closer to the average for Québec. The Côte-Nord and the Nord-du-Québec regions are the only exceptions to this trend. There, income has fluctuated more significantly from one period to another depending on the ebb and flow of major natural resource development projects – including hydro-electric projects – and fluctuations on commodity markets. Overall, the variation compared with the average for Québec today ranges from 82% to 104%.

2 This indicator reflects income after taxes and social contributions.

■ *Improvement over the last ten years*

Over the last ten years, four of the five less-affluent regions³ in 1989 registered an improvement compared with the average for Québec. They are the Bas-Saint-Laurent, Saguenay–Lac-Saint-Jean, Centre-du-Québec and Chaudière-Appalaches. These regions, along with Gaspésie–Îles-de-la-Madeleine, were at least 10% below the average for Québec in 1989.

In Gaspésie–Îles-de-la-Madeleine, however, per capita disposable income has risen somewhat less than elsewhere in Québec, mainly because of more difficult conditions for the development of forest, fishing and mining resources.

TABLE 3

RELATIVE IMPROVEMENT IN PER CAPITA DISPOSABLE INCOME IN FOUR OF THE FIVE LEAST AFFLUENT REGIONS IN 1989

Region	Per capita disposable income (\$)		Index (Québec = 100)		Change in % points
	1989	2000*	1989	2000*	
Gaspésie–Îles-de-la-Madeleine	12 061	14 763	79.8	78.6	-1.2
Bas-Saint-Laurent	12 517	15 744	82.8	83.8	1.0
Saguenay–Lac-Saint-Jean	13 001	16 705	86.0	88.9	2.9
Centre-du-Québec	13 481	17 748	89.2	94.5	5.3
Chaudière-Appalaches	13 580	18 339	89.8	97.6	7.8
Québec as a whole	15 118	18 787	100.0	100.0	—
Average of the five regions	13 090	17 098	86.6	91.0	4.4

* Preliminary estimate by the Institut de la statistique du Québec.

Sources: Institut de la statistique du Québec, Statistics Canada and ministère des Finances du Québec.

Differences in unemployment are shrinking

Disparities in economic development among the regions are reflected in their relative differences in unemployment, which have also been observed over a very long time in the resource regions.

3 Nord-du-Québec was excluded because the difference in size of household (3.3) was too great, which distorts the comparison with other regions of Québec (2.4). The most recent data show that, in 2000, Mauricie also ranked among the regions where per capita disposable income is at least 10% below the average for Québec, i.e. at 88.6%, compared with 92.1% in 1989. This region was affected by, among other things, restructuring in the pulp and paper industry during this period.

The unemployment rate in the resource regions as a percentage of the rate in the other regions of Québec stood at 147 in 2000. While slightly higher than at the end of the 1980s, this relative rate is lower than was generally the case during the preceding decades.

TABLE 4

DISPARITIES IN UNEMPLOYMENT AMONG THE REGIONS OVER MANY YEARS

(unemployment rate, %)

	1961	1971	1981	1989	2000
Resource regions	8.3	14.5	15.0	12.8	12.0
- Bas-Saint-Laurent and Gaspésie	8.3	16.0	17.6	15.5	13.4
- Saguenay–Lac-Saint-Jean	8.6	15.4	13.4	12.0	10.4
- Abitibi–Témiscamingue	8.7	12.8	15.8	11.0	11.7
- Côte-Nord and Nord-du-Québec	7.2	11.0	13.0	11.1	12.6
Other regions	3.8	9.5	9.9	9.2	8.1
- Mauricie–Bois-Francs	4.8	12.2	15.8	10.7	10.0
- Greater Québec City region	3.7	8.7	10.6	7.4	8.7
- Estrie	3.7	9.3	11.3	9.0	7.8
- Outaouais	5.0	9.2	12.0	8.6	7.1
- Greater Montréal region	3.6	9.4	9.3	9.5	7.9
Québec	4.4	10.1	10.3	9.6	8.4
Resource regions as a percentage of other regions of Québec	218	153	152	140	147

Sources: Office de planification et de développement du Québec and Statistics Canada.

Converging employment rate of 15-to-64-year-olds

Historically, the resource regions have both the highest unemployment rate and the lowest employment rate in Québec. This last indicator reflects, in particular, the capacity of regional economies to supply jobs for their working-age population.

▪ ***Growth in the employment rate***

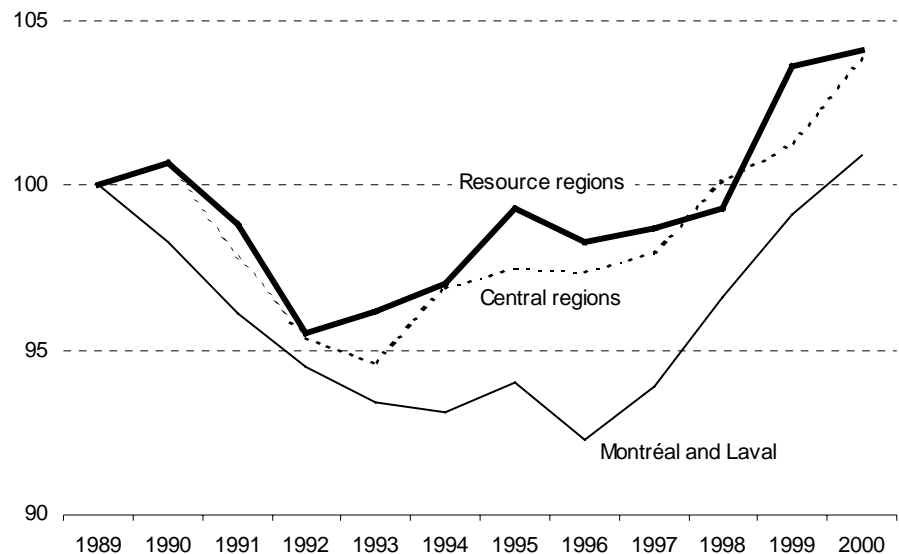
While, even now, the resource regions have an employment rate below that of the other regions of Québec, the difference has narrowed over the last ten years. Between 1989 and 2000, the employment rate of 15-to-64-year-olds rose by 4.1% in the resource regions, compared with 2.8% in the other regions of Québec as a whole.

In particular, the growth in the employment rate in the resource regions exceeded that in the regions of Montréal and of Laval (0.9%), where businesses went through a period of restructuring of their activities in the construction, manufacturing, transportation and commerce sectors between 1989 and 1996.

GRAPH 6

RISE IN EMPLOYMENT RATE OF 15-TO-64-YEAR-OLDS IN THE THREE MAIN REGIONAL GROUPS

(indices: 1989 = 100)



Source: Statistics Canada.

■ ***Increase in the labour market participation rate***

This kind of improvement in the employment rate in the resource regions should have been reflected in a more pronounced drop in the unemployment rate in these regions than in the rest of Québec. However, that did not happen, because the biggest increase in the labour market participation rate was posted in the resource regions.

Starting from a lower rate in 1989, the resource regions managed to reduce the difference in their labour market participation rate over the last decade, compared with the other regions in Québec.

TABLE 5

**BIGGEST INCREASE IN THE LABOUR MARKET PARTICIPATION RATE
IN THE RESOURCE REGIONS**
(as a percentage)

	1989	2000	Change in % points
Participation rate of 15-to-64-year-olds			
Resource regions	65.5	67.5	2.0
Other regions of Québec	73.6	74.7	1.1
Difference	8.1	7.2	-0.9
Employment rate of 15-to-64-year-olds			
Resource regions	57.2	59.6	2.4
Other regions of Québec	66.9	68.8	1.9
Difference	9.7	9.2	-0.5

Source: Statistics Canada.

Comparison with a number of European countries

While there are significant regional economic disparities in Québec, they are not as substantial as those found elsewhere in the world.

■ ***The GDP of the five less-affluent regions***

In many European countries and in the United States, the per capita GDP of the five less-affluent regions did not exceed 80% of the national average in 1996, compared with 82% in Québec.⁴ This figure was:

- 65% in Italy;
- 75% in the United States;
- 76% in Germany;⁵
- 78% in the United Kingdom;
- 79% in France;
- 80% in Belgium.

⁴ Since regional GDP data are not available for Québec, the indicator used is per capita personal income before transfers.

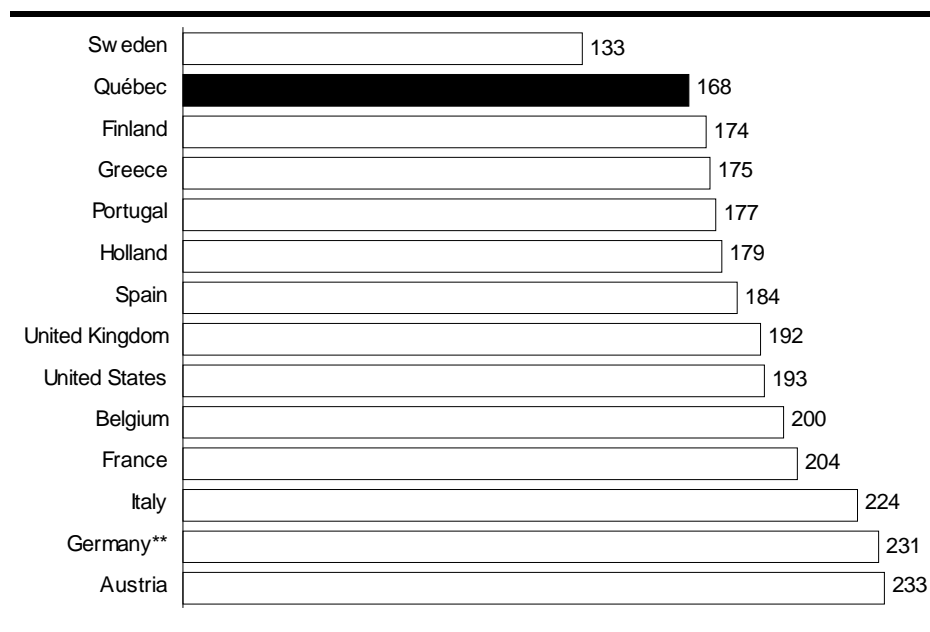
⁵ Excluding the regions of the former East Germany.

▪ ***Disparity between the most affluent region and the poorest region***

In general, the disparity between the most affluent region and the poorest region is smaller in Québec than in most European countries and in the United States.

GRAPH 7

INTERNATIONAL COMPARISON OF REGIONAL DISPARITIES – 1996
(most affluent region as a percentage of the poorest region*)



* On a per capita GDP basis, except for Québec, where the indicator used is per capita personal income before transfers, since regional GDP figures do not exist.

** Excluding the regions of the former East Germany.

Sources: European Commission, *Sixth Periodic Report on the Regions*, Institut de la statistique du Québec and Industry Canada.

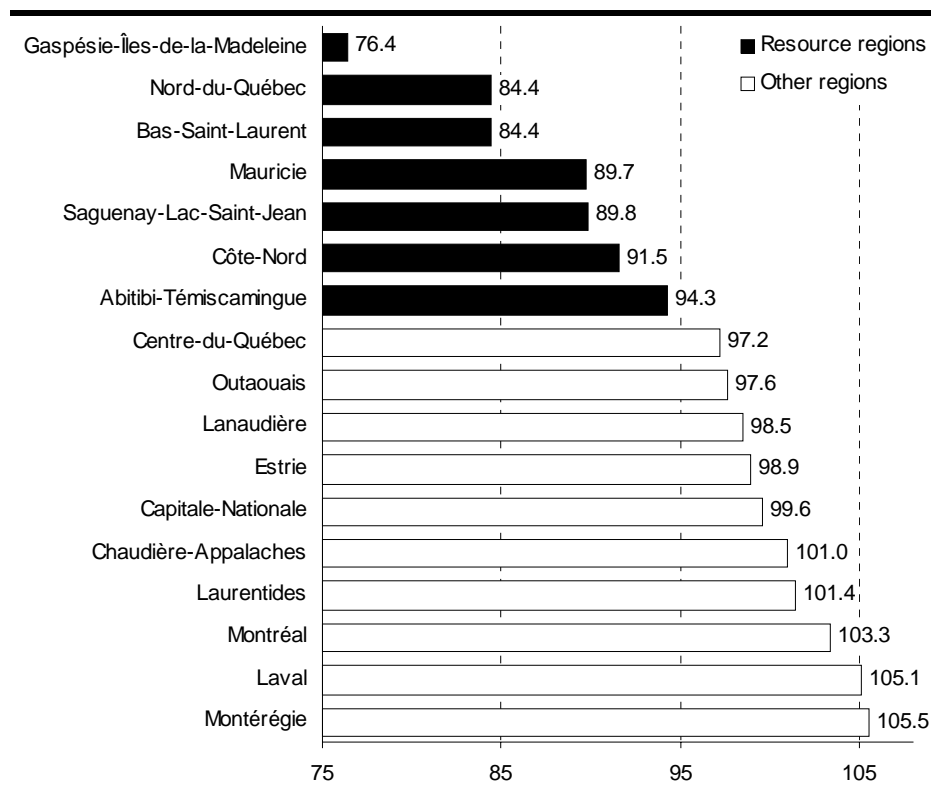
2.3 While progress has been made, significant structural disparities persist among the regions

Despite the economic progress and relative catching-up made in recent years, significant disparities in unemployment and economic development remain among Québec's regions.

Given the lack of GDP data to assess the relative level of economic development of each region compared with the Québec average, an overall index has been produced by combining the two main economic indicators, namely per capita personal disposable income and employment rate of the population between 15 and 64.

GRAPH 8

INDEX OF REGIONAL DEVELOPMENT DISPARITIES – 2000
(Québec as a whole = 100)



Note: Average of the indices for per capita personal disposable income and for the employment rate for the population between 15 and 64 in 2000.

Sources: Institut de la statistique du Québec, Statistics Canada and ministère des Régions.

On the basis of this index, the seven resource regions continue to stand out, with a level of development at least 5% lower than the average for Québec. The remaining ten regions fall within a narrow band of some 5% on either side of the average for Québec.

2.4 The special situation of rural areas experiencing difficulty

The resource regions are not homogeneous. The economic situation of many communities, mainly rural, is particularly difficult.

Using a development index, the ministère des Régions has identified more than 250 rural municipalities experiencing difficulty in the resource regions. These municipalities are characterized by a level of schooling below that of Québec as a whole, a high proportion of income from government transfers, average household income below the average for Québec and a very high unemployment rate.

TABLE 6

COMPARATIVE FEATURES OF RURAL MUNICIPALITIES EXPERIENCING DIFFICULTY IN RESOURCE REGIONS – 1996 (as a percentage)

Indicators	Rural municipalities experiencing difficulty	Québec
Change in population (1991-1996)	-1.0	3.6
Average income per private household*	77.8	100.0
Unemployment rate among those 15 or over	27.7	11.8
Government transfers as a proportion of household income	32.8	16.2
Employment/population 15 or over	36.8	55.0
Population 15 or over with less than nine years of schooling	31.8	18.1

* Index as a percentage of Québec.

Source: Statistics Canada, 1996 census.

3 *Problems common to the resource regions*

CHAPTER 3 – PROBLEMS COMMON TO THE RESOURCE REGIONS

The resource regions face a number of problems that hamper their economic development. These problems can be grouped around three major difficulties:

- First, the economy of the resource regions is insufficiently diversified. Among other things, manufacturing activities there are less developed than in Québec as a whole.
- Second, in the resource development sector, which is a cornerstone of their economy, the regions face a difficult global context, which is felt especially keenly in the forest and mining sectors.
- Third, businesses located in the resource regions or that would like to invest there lack certain tools, especially regarding financing, corresponding to their needs.

These difficulties help fuel other problems, demographic ones in particular.

3.1 Insufficient development and diversification

The first difficulty common to resource regions stems from insufficient development and excessive concentration of the activities already located there.

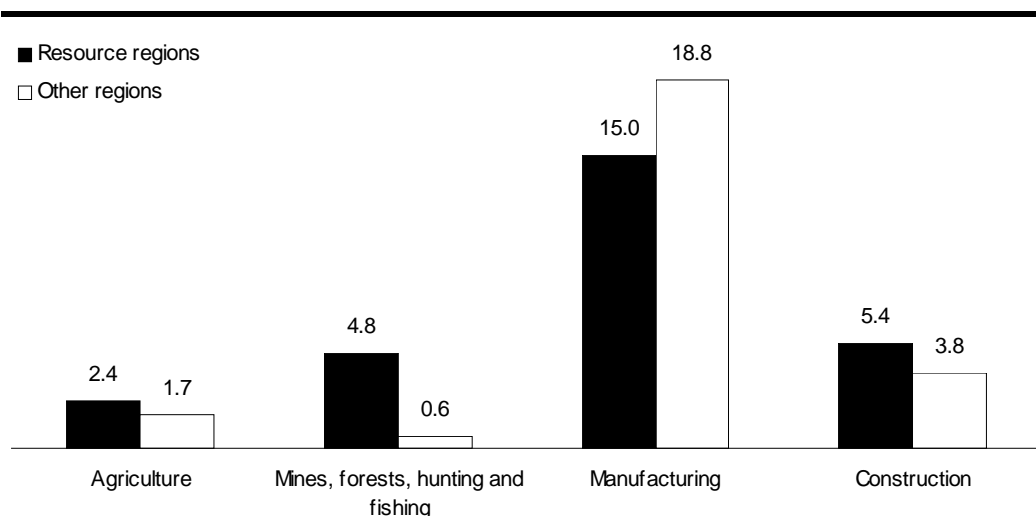
An analysis of the distribution of jobs in the resource regions leads to an observation: manufacturing activities are less developed in these regions than elsewhere in Québec.

As Graph 9 shows, in 2000, manufacturing activities accounted for 15% of total jobs in the resource regions, compared with close to 19% in the other regions of Québec.

GRAPH 9

DISTRIBUTION OF EMPLOYMENT IN THE PRIMARY AND SECONDARY SECTORS – 2000

(as a percentage of total employment)



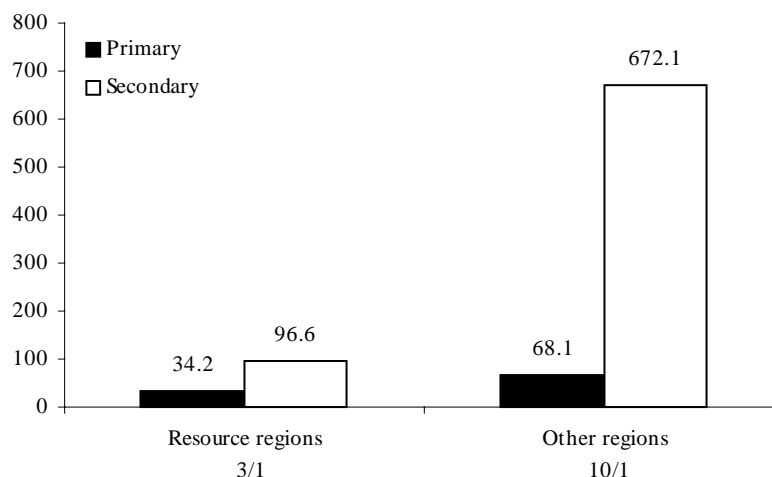
Source: Statistics Canada.

The relative weakness of manufacturing activities in the resource regions is much more worrisome when viewed in relation with activities in the primary sector.

When the relative importance of the primary and secondary sectors is compared in each region, it is seen that in 2000, there were ten times as many jobs in the secondary sector as in the primary sector in regions other than the resource regions, while the corresponding ratio in the resource regions was only three to one.

GRAPH 10

JOBS IN PRIMARY AND SECONDARY SECTORS BY REGION – 2000
(thousands)



Source: Statistics Canada.

▪ ***A frequently unfavourable context***

The secondary sector accordingly is not as developed as it should be in the economy of the resource regions, especially considering the existence of a very active primary sector.

In the resource regions, manufacturing businesses – and here we are referring especially to SMEs – must overcome specific difficulties: great distances, more limited access to services, suppliers and distribution networks, as well as the attraction of major centres for potential workers, are all constraints that hinder the growth of existing businesses and limit new investments.

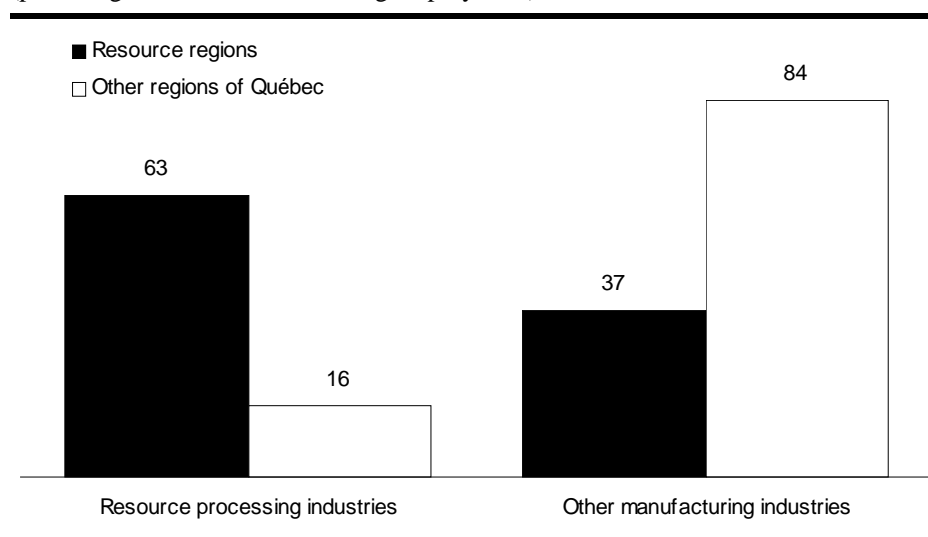
■ ***Manufacturing sector based mainly on the primary processing of resources***

This insufficiently developed manufacturing sector is based first and foremost on primary resource processing activities.

GRAPH 11

MANUFACTURING ACTIVITIES CONCENTRATED ON THE PROCESSING OF RESOURCES – 2000

(percentage share of manufacturing employment)



* Wood, paper and related products, primary processing of metals and manufacturing of non-metal mineral products.

Source: Statistics Canada.

Graph 11 above shows that, in 2000, in the resource regions, over 60% of jobs in the manufacturing sector were related to the processing of resources, compared with only 16% in the other regions of Québec.

The level of concentration of manufacturing activities is very high in the resource regions: in 2000, the four largest manufacturing industries accounted for close to 70% of manufacturing jobs, compared with only 39% in the other regions of Québec.

TABLE 7

CONCENTRATION OF MANUFACTURING JOBS
(percentage share of manufacturing employment)

	1989	2000	Change in % points
Jobs in the four largest manufacturing industries*			
- Resource regions	73.3	68.7	-4.6
- Other regions of Québec	41.7	38.6	-3.1

* For the resource regions: wood, paper, primary processing of metals and food and beverages. For the other regions of Québec: food and beverages, clothing and leather, transportation equipment, and computer and electronic products.

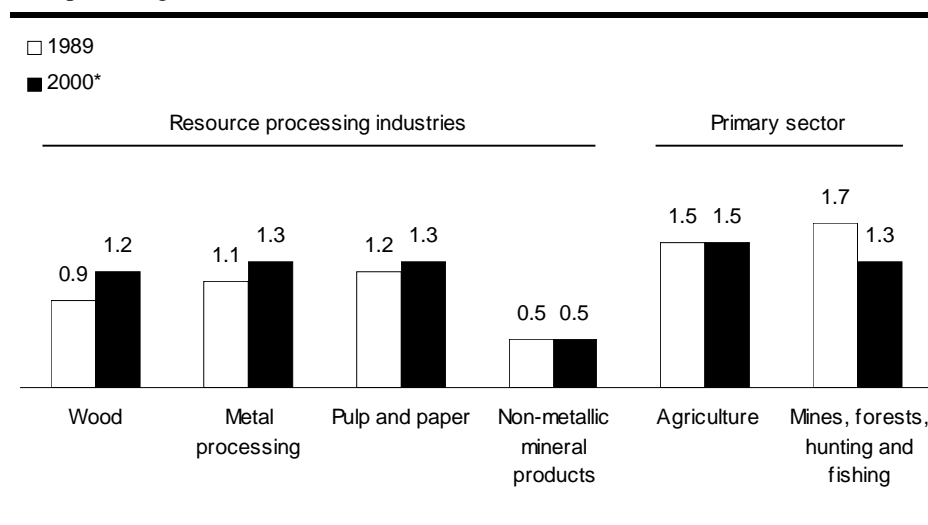
Source: Statistics Canada.

■ ***Processing activities account for a rising share of GDP***

Overall, for Québec as a whole, the volume of activity of industries focusing on processing natural resources has risen appreciably over the last decade.

GRAPH 12

**GREATER IMPORTANCE OF MANUFACTURING INDUSTRIES
FOCUSING ON PROCESSING RESOURCES IN QUÉBEC**
(as a percentage of Québec's real GDP)



* Preliminary estimate.

Source: Institut de la statistique du Québec.

Between 1989 and 2000, resource processing industries as a percentage of Québec's real GDP rose from 3.8% to 4.3%. This increase is essentially due to the good performances of the forest industry and primary metal processing.

The economic weight of these two industries rose from 0.9% to 1.2% and from 1.1% to 1.3% respectively. The share of GDP of the pulp and paper industry also rose, from 1.2% to 1.3%.

As this trend shows, the resource regions have significant development potential for secondary and tertiary processing activities. As part of their regional strategic planning, the regional development councils (CRDs) of the resource regions have identified a set of target sectors, explicitly mentioning secondary and tertiary processing of forest products, mining products – such as aluminum – and sea products.

3.2 Difficulties in the resource development sector

The second problem common to the resource regions is that the development of the raw materials they produce – a cornerstone of their economy – has been faced with significant difficulties for many years now.

The natural resource sector as a whole

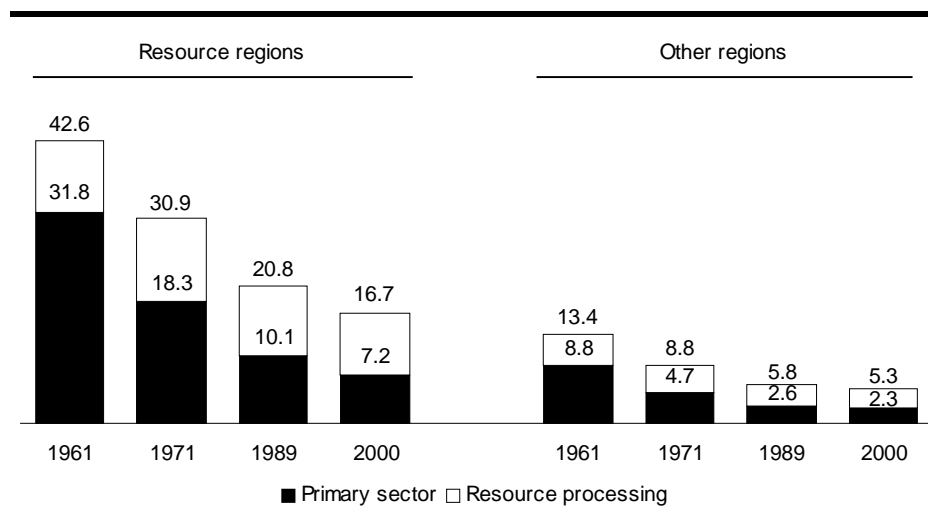
Currently, 17% of jobs in the seven resource regions are directly related to the development of natural resources,⁶ compared with 5% elsewhere in Québec. This is a very high proportion, even though it marks a large drop in the relative importance of natural resources in the economy of these regions since the 1960s.

⁶ Consisting of the primary sector (mining extraction, forest development, agriculture, hunting and fishing) and the following processing industries: wood, paper and related products, primary metal processing and manufacturing of non-metal mineral products.

GRAPH 13

RELATIVE IMPORTANCE OF DIRECT JOBS IN THE NATURAL RESOURCES SECTOR

(percentage share of total employment)



Sources: Office de planification et de développement du Québec, Statistics Canada and ministère des Finances du Québec.

▪ ***The slump in world prices***

Since the early 1980s, world commodity prices have fallen sharply in real terms, i.e. in terms of consumer goods purchasing power.

This slump is attributable to a number of factors:

- The arrival of new producers, especially in developing countries, has raised global supply.
- In some producer countries, workers in the sectors concerned are paid low wages.
- Technology has improved, helping to reduce production costs and the need for labour.
- Substitutes have been developed for raw materials, reducing their consumption.

GRAPH 14

45% DROP IN THE RELATIVE PRICE OF RAW MATERIALS OTHER THAN ENERGY SINCE 1980

(indices: January 1980 = 100)



Sources: Statistics Canada and Bank of Canada.

In this context, most businesses in the natural resources sector have had to make significant efforts to modernize in order to remain competitive on international markets. Some of them were forced out of business because they were not profitable enough. In addition, the resource regions continued to be affected by the downward trend in employment in the primary sector – a trend that is close to a century old.

Overall, since 1989, 14 000 jobs relating to natural resources have been lost in the resource regions. The losses have been concentrated in mining (-7 400) and agriculture (-2 500).

The forest industry

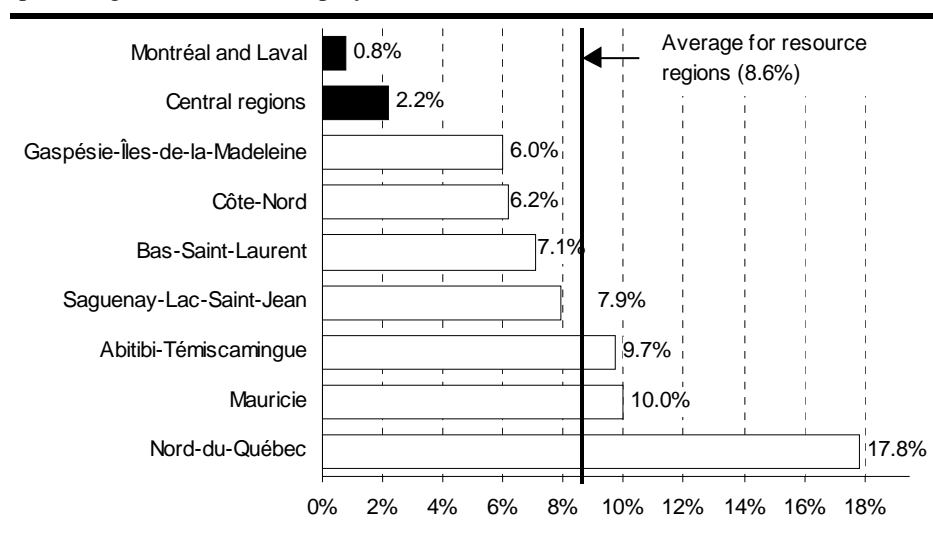
In addition to these general difficulties, Québec's resource regions are facing problems specifically affecting forest exploitation.

- ***Forest exploitation: a major activity in the resource regions***

The forest industry in its entirety directly supports over 40 000 jobs in the resource regions of Québec. The percentage of jobs concerned ranges from 6.0% in Gaspésie–Îles-de-la-Madeleine to 17.8% in Côte-Nord and Nord-du-Québec.

TABLE 8

IMPORTANCE OF FOREST PRODUCTS BY REGION – 1999
(percentage share of total employment)



Sources: Ministère des Ressources naturelles du Québec and Statistics Canada.

▪ ***The crucial nature of forest management***

Basically, this industry depends on a resource that can be depleted – the forest – whose long-term survival must be protected. Forest management, resource development and silvicultural work must be carried out, year after year, to secure the industry's long-term viability. In this regard, it is essential to maintain the intensity of this work to ensure the future development of the forest resource.

This requirement raises another problem, namely the availability of quality manpower. The development of manpower for silvicultural work is a matter of concern for the entire industry. In spite of the efforts made, many regions are facing a severe shortage of trained and specialized workers.

The mining sector

The mining sector also faces a delicate situation. Since the mid-1990s, the world mining industry has been going through a difficult period, marked by falling metal prices.

▪ ***The impact of global conditions on development and exploration***

The global situation has a direct effect on many of Québec's resource regions, a portion of whose economy is based precisely on mining exploration and development.

For these regions, the drop in world prices leads first of all to the closing of a number of mines, whose operating costs are too high relative to international prices. The resulting job losses are all the more damaging since the jobs concerned are generally very well paid.

At the same time, exploration activity is being scaled back significantly, which also leads to a decline in the number of jobs, while placing the continuation of many of the mining activities concerned in jeopardy. Without sufficient investment in exploration, there is a significant chance that mines that are closed will not be replaced by new operations.

▪ ***The drop in exploration spending***

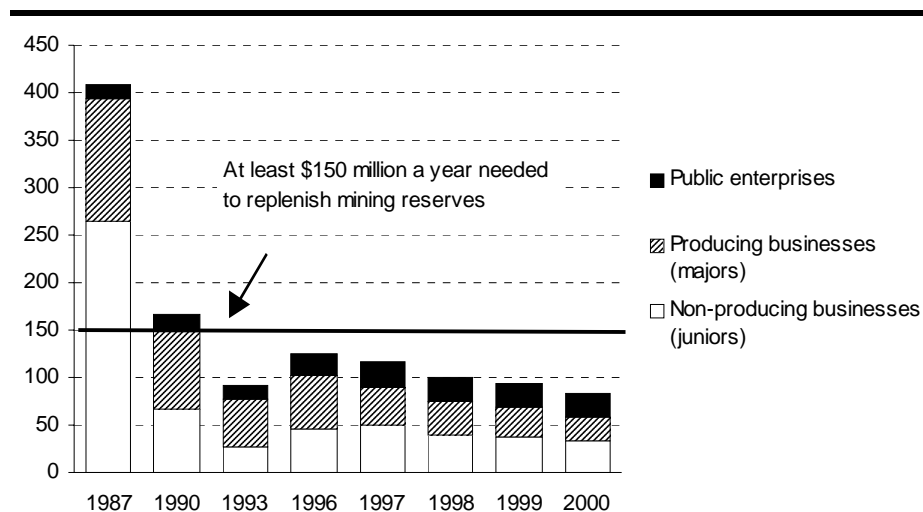
Between 1987 and 2000, exploration and development spending in Québec's mining sector plunged by three quarters, falling from over \$400 million to less than \$100 million. Since 1996, these expenditures have declined constantly. Investments by producing businesses, the "seniors", and those by non-producing firms, the "juniors", have declined without interruption. Only exploration activities sustained by the public sector have held up.

It is estimated that such spending should amount to at least \$150 million a year to ensure the renewal of existing operating sites. We are currently well below this level.

Current global conditions in the mining sector are creating problems for the resource regions concerned, with the slowing exploration effort being a major concern because of its impact in the future.

GRAPH 15

MINING EXPLORATION AND DEVELOPMENT SPENDING IN QUÉBEC*
(millions of dollars)



* Spending outside a mine site.

Source: Ministère des Ressources naturelles du Québec.

■ ***Much is at stake for Québec, one of the world's major mining producers***

Much is at stake for Québec. Québec ranks among the world's top ten mining producers, and mining activities account for about 10 000 jobs⁷ in the resource regions, i.e. a little over half the mining industry jobs in Québec. Exploration activities are essential to maintain this position and ensure a rapid resumption of activities, once the world mining industry recovers from the current slump.

Québec's geological situation justifies such a resumption: many resource regions feature attractive opportunities for exploration and hence development. Recent discoveries of zinc and copper, near Matagami, have confirmed the mineral potential of existing mining regions. In addition, sites have been identified, especially by juniors, in the James Bay, Ungava and Hudson Bay territories. They may yield platinum ore bodies, diamonds and nickel, resources currently not developed in Québec or developed only to a small extent. In many regards, these new sites represent the future of the mining industry in Québec.

⁷ Calculated in person-years.

3.3 Insufficient development tools

The third problem common to the resource regions is that businesses located in these regions do not have certain tools adapted to their needs, specifically, venture capital invested in the regions and support for entrepreneurship.

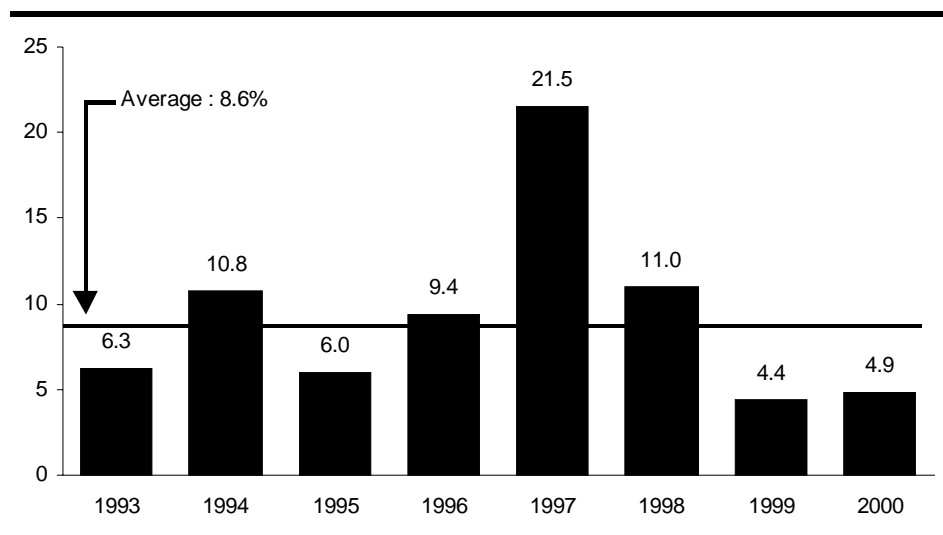
Little venture capital invested in the resource regions

Since 1993, 8.6% of venture capital in Québec has been invested in the resource regions. Excluding 1997, when the amount of venture capital invested in these regions was exceptionally high, this proportion drops to 6.7%.

GRAPH 16

SHARE OF VENTURE CAPITAL INVESTED IN QUÉBEC'S RESOURCE REGIONS

(as a percentage)



Source: MacDonald and Associates Limited.

▪ *A disparity in relation to the demographic weight of the resource regions*

This disparity in relation to the demographic weight of the resource regions, which account for 16% of Québec's total population, shows the small amount of venture capital ready to be invested there, and thus points to one of the difficulties facing these regions in their development efforts.

The small amount of venture capital invested in the resource regions is one component of a vicious circle in which these regions are engaged: the economic difficulties they are experiencing, related in large part to the international situation, impede new investment projects. Alternative projects cannot be initiated because entrepreneurs do not have access to venture capital, which is also tied to the economic problems encountered.

▪ ***A problem that also affects the regions: cooperatives' need for capital***

Lack of venture capital is not the only financial problem facing the resource regions. Another difficulty stems from cooperatives' need for capital, which has direct repercussions on the economy of the regions.

Cooperatives play a strategic role in the resource regions' development. They account for a substantial share of the economic fabric of these regions and, accordingly, a large proportion of business investment. Currently, one quarter of Québec's cooperatives are located in the resource regions. These cooperatives are undergoing rapid growth that contributes directly to enriching Québec's economy, especially in the regions.

However, this growth is limited by a lack of capital.

- Cooperatives' capital is not keeping pace with the increase in their investments; their capitalization rate is below the average capitalization rate of private firms. This under-capitalization has an immediate effect on investment financing, since it limits the ability of cooperatives to intervene directly.
- The lack of capital also has an indirect impact on investment financing, because it limits borrowing opportunities. Businesses can borrow on the strength of their capital, giving them true leverage. The weakness of cooperatives' capital limits this leverage.

Accordingly, initiatives must be taken to mobilize funds that could be allocated in part to finance investments by cooperatives, either to improve their capitalization or to be made available as loans to cooperatives.

Insufficient support for entrepreneurship

Support for entrepreneurship should be better adapted to the needs of the region. Increasingly, economic development depends on the entrepreneurial energy of individuals, i.e. their ability to initiate new projects and create new businesses, new products and, accordingly, new jobs.

- ***Energy reflected in SMEs***

Entrepreneurial energy is seen first in the number and vitality of SMEs. Bear in mind that SMEs are responsible for most job creation, though the strategic role of major investments by large companies must not be under-estimated.

For a variety of reasons, not all the regions show the same degree of entrepreneurial energy. For instance, in the resource regions, large companies that dominate regional activity attract the most skilled workers. The difficulty lies in the fact that in the sectors concerned, there has not been a proliferation of small businesses created to benefit from the presence of large companies, as has happened in other regions of Québec, in sectors other than heavy industry.

- ***Problems with financing, but with information and expertise as well***

This situation in the resource regions is attributable in part to the financing problems mentioned earlier: promoters of business projects and SMEs in the resource regions should have access to financing tools adapted to their needs.

However, these entrepreneurs also need an appropriate network of information and expertise, to support them throughout the growth cycle of their business, starting from the pre-start-up phase. Entrepreneurs in the resource regions appear to have problems accessing such a network.

3.4 The downward trend in the demographic weight of resource regions

The disparities in development in the resource regions compared with Québec as a whole partially account for other difficulties they face, demographic ones in particular.

- ***Steadily falling demographic weight***

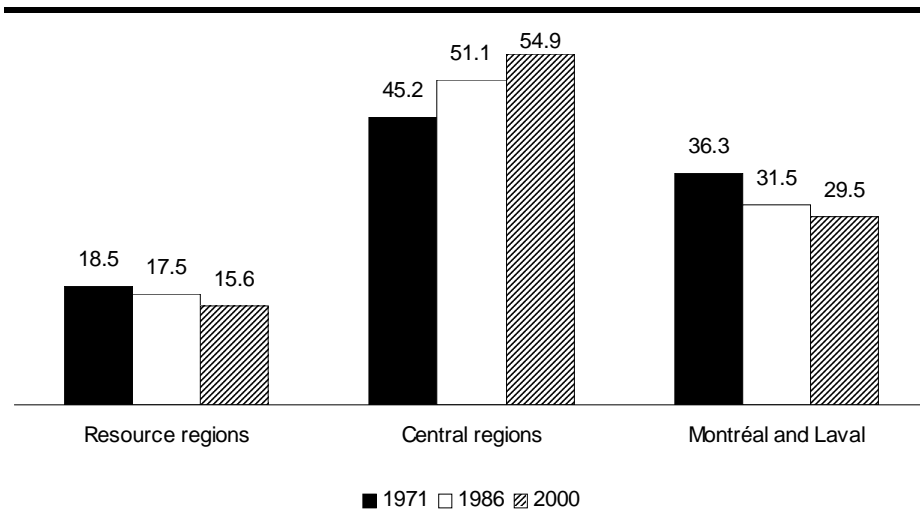
Since 1971, the demographic weight of most resource regions has fallen steadily. The population of these seven regions has grown by only 3.2% since 1971, compared with 22.3% for Québec. Since 1991, there has been a net decline in six of the seven resource regions, the exception being the Nord-du-Québec region, where population growth remains strong. This trend stems from:

- a low fertility rate, except in the Nord-du-Québec region;
- the small contribution of international immigration;
- negative inter-regional net migration, especially among young people from 15 to 29 years of age.

GRAPH 17

DEMOGRAPHIC WEIGHT OF REGIONAL GROUPS

(as a percentage)



Source: Institut de la statistique du Québec.

▪ ***Young people move to major centres***

The number of young people in the resource regions is a major question for the future of these regions. Between 1986 and 2000, the population under 30 declined by 24.8% in the resource regions, a far larger relative drop than in Québec as a whole (-11.5%). The proportion of young people in the resource regions is now almost equal to the Québec average (38%), whereas in the past, the population of the resource regions was decidedly younger than that of the other regions.

While low fertility, observed since the late 1960s, is an important factor in the ageing of the population in most regions of Québec – except for the Nord-du-Québec region – the resource regions, especially the rural zones of these regions, must also contend with the trend among young people to leave the regions for the major centres.

The departure of young people can be illustrated by following the same age group over two census periods: young people between 15 and 19 years of age in 1986 and those between 25 and 29 years of age in 1996. The comparison shows that, after ten years, the resource regions lost 21.3% of their young people, many of whom moved to the Montréal and Laval regions.

These departures have several effects: they reduce the number of adults of child-producing age, they deprive the resource regions of their most dynamic and best trained people, and they reduce the population density, as well as the possibilities of developing adequate services.

TABLE 9

CHANGE IN THE NUMBER OF YOUNG PEOPLE UNDER 30 YEARS OF AGE

	Resource regions	Central regions	Montréal and Laval	Québec as a whole
Population under 30 years of age – 2000	440 111	1 542 113	796 509	2 778 733
Weight in total population in % – 2000	38.3	38.1	36.6	37.7
Percentage change 1986-2000	-24.8	-5.5	-13.9	-11.5
Cohort 25-29 years of age in 1996 compared with the cohort 15-19 years of age in 1986 – % change	-21.3	1.4	22.7	3.5

Source: Institut de la statistique du Québec.

■ ***High unemployment among 15-to-29-year-olds***

Another factor that may help explain why young people leave these communities is that the economic context in the resource regions has not been favourable for them. Between 1989 and 2000, their situation on the labour market did not improve, contrary to the situation in the other regions of Québec. In 2000, the unemployment rate among 15-to-29-year-olds was 17.3% in the resource regions, compared with 11.0% in the other regions. One out of two young people had work, compared with three out of five elsewhere in Québec.

To encourage young people to remain in the regions, the economic base needs to be bolstered to increase job opportunities in their communities.

TABLE 10

THE LABOUR MARKET FOR 15-TO-29-YEAR-OLDS
(as a percentage)

		Resource regions	Central regions	Montréal and Laval	Québec
Unemployment rate	1989	15.9	11.3	11.7	12.1
	2000	17.3	11.0	11.0	11.8
Employment rate	1989	55.2	65.6	66.9	64.4
	2000	51.0	63.5	60.3	60.6

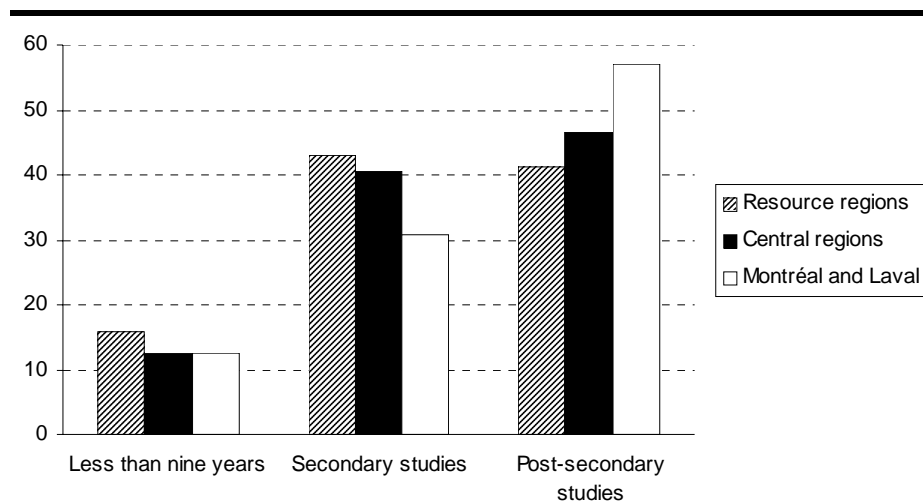
Source: Statistics Canada.

▪ ***Less schooling than in other regions***

While school attendance has risen substantially in recent years, the resource regions still had, in 1996, the highest proportion of the population from 20 to 64 years of age with less than nine years of schooling (15.7%) and the lowest proportion of graduates from post-secondary studies (41.2%).

GRAPH 18

LEVEL OF SCHOOLING OF 20-TO-64-YEAR-OLDS – 1996
(as a percentage)



Source: Institut de la statistique du Québec.

▪ *A Catch-22 situation*

The resource regions are facing what could be called a Catch-22 situation:

- Young people eschew higher education because of the types of jobs available in their region or, if not, they generally must leave their region to pursue their education.
- They subsequently find it difficult to return to their region because of a lack of employment opportunities corresponding to their level of training.
- The departure of dynamic and highly skilled individuals hampers the renewal of the industrial structure.

To break this vicious circle, the industrial structure of the resource regions must evolve by diversifying their economic structure and developing, in particular, fields of excellence according to the strengths of each region.

4 *A brief review of government action in the regions*

CHAPTER 4 – A BRIEF REVIEW OF GOVERNMENT ACTION IN THE REGIONS

The government has already implemented substantial measures to support the development of the regions. In recent years in particular, many significant initiatives have been formulated, and have produced some results. It is appropriate to briefly review these initiatives and these results, now that the government is entering a crucial new phase of its regional policy.

▪ Two major policy statements

The government's action for the regions was renewed with the publication of two major policy statements: the *Politique de soutien au développement local et régional*, adopted in April 1997, and the economic development strategy called *Québec Focus on Jobs: Shaping an Innovative Economy*, released with the *March 1998 Budget Speech*.

These two policy statements gave rise, in the 1998-1999, 1999-2000 and 2000-2001 Budgets, to a series of budgetary and fiscal measures designed to create favourable conditions for the revitalization and diversification of the economies of the regions.

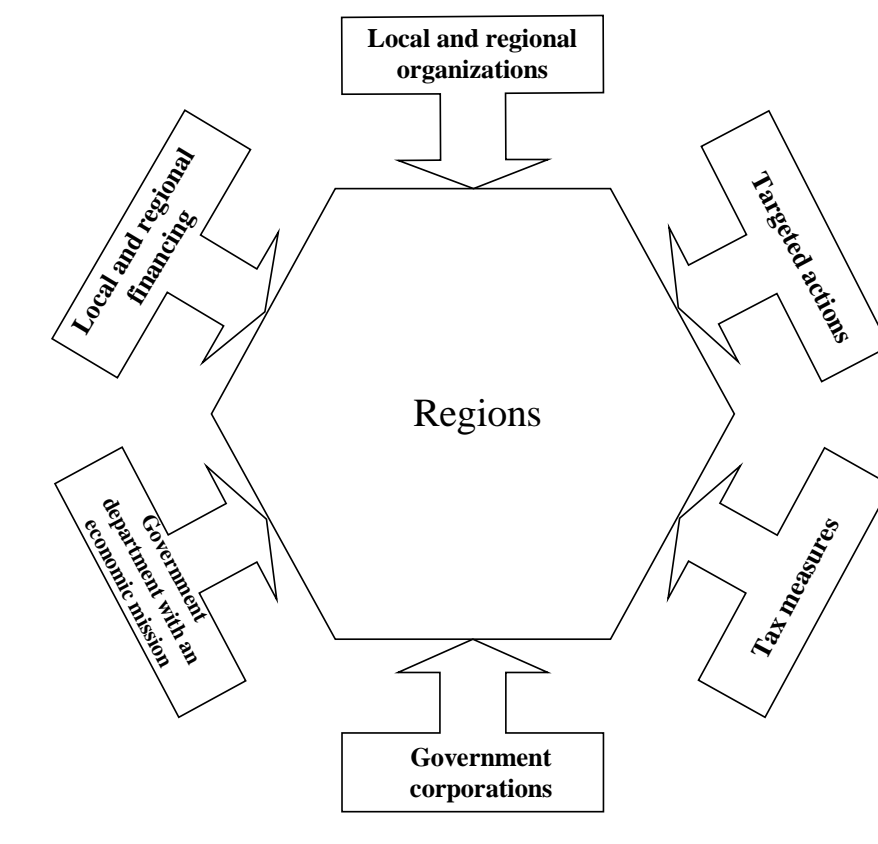
4.1 The Québec government's various forms of regional development support

Besides the regular activities of government departments, many of which have a major impact in the regions, the government's support for regional economic development now takes a variety of forms:

- support for local and regional development organizations;
- local and regional financing networks gradually set up since the mid-1990s;
- support of government corporations for investment by private enterprises;
- actions targeting certain regions or industries focusing on natural resources;
- specific tax measures designed for the regions.

DIAGRAM 1

GOVERNMENT SUPPORT FOR LOCAL AND REGIONAL DEVELOPMENT



4.2 Stronger local and regional economic development organizations

Through the *Politique de soutien au développement local et régional*, the government has sought, among other things, to establish favourable conditions for the development of entrepreneurship in the regions by creating a number of financial tools dedicated to start-ups or SMEs, and by transferring responsibility for their management to local communities.

Front-line services: the CLDs

To do so, the government has set up a network of 111 local development centres (CLDs) that offer front-line services in terms of technical or financial support or assistance to individual or groups of entrepreneurs, including businesses in the social economy. Accordingly, the government has made them responsible for the management of

financial assistance measures for SMEs, local investment funds (FLIs) in particular. Government funding amounts to \$100 million over five years (1998-2003).

A three-year assessment of the results of the CLDs is being prepared. Preliminary results compiled from 67 of them show that in 1999, they committed about \$7.8 million out of an available annual envelope of \$9.5 million, for investments of \$83.1 million. This represents a participation of 10.7% in projects that have created or maintained some 1 600 jobs, of which close to 700 are in the resource regions.

CRDs promote concerted action among regional partners

In keeping with its policy, the government also refocused and consolidated the roles of the regional development councils (CRDs) regarding regional planning and concerted action.

In 1998-1999, the Fonds de développement régional (FDR), or regional development fund, was made available to the CRDs to sustain regional developmental projects or implement specific agreements with government departments and organizations. The government is providing it with \$90 million over five years.

In 1999-2000, FDR commitments totalled \$18.8 million, including \$13.8 million for developmental projects and \$5 million to fund the measures stipulated in specific agreements. FDR commitments in the resource regions amounted to \$9.1 million.

4.3 Local and regional financing networks

Since the early 1990s, the government has helped broaden the range of financial products and consulting services available to SMEs. Without a doubt, these products were a first step in the right direction. However, as was pointed out in the preceding chapter, they have not been enough to meet all the needs of the resource regions.

Partnership between the government and the Fonds de solidarité FTQ

The advent of local and regional funds offering venture capital to SMEs stems largely from a partnership that gradually took shape between the government and the Fonds de solidarité FTQ starting in the mid-1990s.

Each region now boasts two networks of capital funds stemming from initiatives of the Québec government and the FTQ.

TABLE 11

**INVESTMENTS SUSTAINED BY REGIONAL SOLIDARITY FUNDS AND SOLIDES¹
AS AT DECEMBER 31, 2000**

	Amount disbursed (in millions of dollars)	Number of projects	Investments sustained (in millions of dollars)	Jobs created	Jobs created and consolidated
Regional solidarity funds					
Québec	88.0	323	495.7	11 641	20 330
Resource regions	31.1	126	204.7	5 111	9 029
%	35.3	39.0	41.3	43.9	44.4
SOLIDES					
Québec	29.9	1 074	307.9	3 661	9 713
Resource regions	11.8	467	150.4	1 201	3 784
%	39.3	43.5	48.8	32.8	39.0

1 Sociétés locales d'investissement dans le développement de l'emploi, or local employment development investment corporations.

Regional solidarity funds

Since 1995, every region has had a private venture capital fund, the Fonds régional de solidarité (FRS), or regional solidarity fund, a wholly-owned subsidiary of the Fonds de solidarité FTQ. These funds are managed entirely within the region and each has initial investment capital of \$6 million that can be recapitalized by the Fonds de solidarité FTQ. The funds target projects requiring financing of at least \$750 000. As at December 31, 2000, the seven FRS funds of the resource regions have invested \$31.1 million in their regions, i.e. 35.3% of total FRS investments in Québec.

The Sociétés locales d'investissement dans le développement de l'emploi (SOLIDES)

In addition to the preceding network, there are the Sociétés locales d'investissement dans le développement de l'emploi (SOLIDES), or local employment development investment corporations, a network of local funds of \$500 000 resulting from a partnership between the government, the RCM and the Fonds de solidarité FTQ.

SOLIDES are private organizations with a local board of directors. They provide project financing for amounts ranging between \$5 000 and \$50 000. As at December 31, 2000, SOLIDES in the resource regions had injected \$11.8 million into 467 projects totalling \$150.4 million that had created or supported 3 784 jobs, or 39% of total jobs for Québec.

The Société de diversification économique des régions (SDER)

In addition, in its *2000-2001 Budget*, the Québec government announced the creation of the Société de diversification économique des régions (SDER).

The SDER uses its \$50-million budget to help increase employment diversity in the regions by fostering the emergence or consolidation of more technologically-intensive activity sectors. In February 2001, a few months after it was formed, the SDER had approved 18 projects involving assistance of \$1.7 million and a total investment of \$5.9 million. All these projects are located in the resource regions.

Encouraging results

A total of \$45 million in venture capital has been marshalled in recent years for the resource regions. Almost 13 000 jobs have been consolidated or created thanks to these investments. These efforts have had a definite impact, even though the problem of the actual availability of venture capital for small entrepreneurs in the regions still appears to be unresolved.

4.4 Government corporations

In 1998-1999, the government undertook a fundamental review of the role and organization of its investment and venture capital government corporations:

- The government formed Investissement Québec and its subsidiary, Garantie Québec.
- It also reorganized the Société générale de financement du Québec (SGF).
- The Innovatech Régions ressources corporation was created, becoming Québec's fourth Innovatech corporation.

Investissement Québec

Investissement Québec was set up in 1998 as a one-stop centre for investments that need government support. Its basic mission is to provide government leadership regarding promotion, market development, investor reception and business financing assistance, with the objective of generating more investment in Québec.

Investissement Québec's chief financing programs are the Private Investment and Job Creation Promotion Fund (FAIRE), the Business Financing Assistance Program (SMB Guarantee) and the Small Business Financing Program (SMB Spark). The corporation is very active in Québec's resource regions.

The Société générale de financement du Québec (SGF)

The government also undertook a major reorganization of investment government corporations to maximize their cohesion and make them as effective as possible in terms of economic development. In practical terms, the government corporations SOQUEM, SOQUIA, SOQUIP and REXFOR were brought within the SGF's purview as affiliated entities within a holding structure.

For the regions, SGF's investment capacity is often a crucial economic tool in support of major projects by businesses within their territory.

Innovatech Régions ressources

Innovatech Régions ressources was formed in March 1998 with capital stock of \$50 million. It covers the regions of Bas-Saint-Laurent, Gaspésie-Îles-de-la-Madeleine, Saguenay-Lac-Saint-Jean, Abitibi-Témiscamingue, Côte-Nord and Nord-du-Québec.

Results obtained

Overall, from April 1998 to January 2001, these corporations have supported 1 260 projects including 246 in the resource regions, or close to 20% of the total – excluding projects that cannot be attributed to a single region. These 246 projects have generated investment of close to \$1.8 billion, contributing to the creation or consolidation of nearly 22 000 jobs.

TABLE 12

ACTION PLAN TO INCREASE PRIVATE INVESTMENT -- 1998-2000

	Number of projects	Investments sustained (in millions of dollars)	Jobs created and consolidated
Québec as a whole	1 260	11 087.5	127 951
Resource regions	246	1 787.6	21 910
Resource regions' share (%)	19.5	16.1	17.1

Note: These results reflect the addition of the results of Investissement Québec's FAIRE program, of Garantie Québec's project financing programs, and of the financial participation of the four Innovatech corporations and of SGF.

4.5 Targeted initiatives of the 2000-2001 *Budget Speech*

In the 2000-2001 *Budget Speech*, the government committed substantial funds to support economic development in all the regions, the resource regions as well as others. This commitment involved a series of targeted measures to support local and regional economies and help them diversify.

The most important measures were as follows:

- Creation of the Société de diversification économique des régions.
- Creation of INNO-PAP (Innovation-Papier), a corporation with a \$100-million budget to modernize the least-productive mills and thus contribute to maintaining jobs in the regions – often well-paying jobs.
- Improvement of the Plan de relance de la Gaspésie–Îles-de-la-Madeleine. To date, the government has allocated \$49 million to this plan, in particular, to develop new niches of economic activity, consolidate and sustain the growth of existing businesses, and revitalize training and research infrastructures in the region. This plan was instrumental in bringing about over \$100 million of investment and in creating over 3 600 jobs.

4.6 Tax measures designed for the regions

In recent years, the government has designed a number of tax measures specifically for the regions, adapting a number of fiscal tools, formulated for Québec's economic development policies, to the needs of the regions. There are three such tax measures:

- In March 1999, the government created the Carrefours de la nouvelle économie (CNEs), or new economy centres.
- In March 2000, a refundable tax credit was introduced for the Vallée de l'aluminium.
- In November 2000, a refundable tax credit was implemented for Gaspésie–Îles-de-la-Madeleine and certain maritime regions of Québec.

The Carrefours de la nouvelle économie

Introduced in March 1999 as part of the 1999-2000 *Budget Speech*, CNEs are an outgrowth of the same logic as the information technology development centres (CDTIs).

As with the CDTIs, CNEs are groups of businesses that are carried on in the same building. Corporations that carry out their activities in such a building receive a refundable tax credit calculated on salary expenditures.

The first CNE was designated in July 1999, and there are now about 40 throughout Québec. Just over half of them are located in resource regions. To date, 48 businesses have decided to move into CNEs located in resource regions, contributing to the creation of just over 1 000 jobs in the knowledge-based economy.

The Vallée de l'aluminium

In March 2000, in the *2000-2001 Budget Speech*, the Minister of Finance announced the implementation of a refundable tax credit for the Vallée de l'aluminium. This tax measure concerns the Saguenay–Lac-Saint-Jean region exclusively and mainly targets secondary and tertiary aluminum processing activities.

As in the case of the CNEs, the measure consists of a refundable tax credit determined on the basis of wages. Since the measure was implemented, 25 businesses have received an eligibility certificate.

Tax measures for Gaspésie–Îles-de-la-Madeleine

In November 2000, the government implemented a special tax measure for the Gaspésie–Îles-de-la-Madeleine region. Some of the components of this measure also concern Côte-Nord and the Matane RCM, in Bas-Saint-Laurent. At the same time, the government improved tax assistance for shipyards.

Once again, the principle is similar to that of the two preceding measures. A refundable tax credit is provided to support, in the regions concerned, the development of activities in the sea products processing, marine biotechnology, wind power or mariculture sectors.

The tax measure has already generated considerable interest, since projects representing 300 jobs have been brought forward – representing one tenth of all the manufacturing and processing jobs in the region.

Part II

***The strategy:
three main
focuses***

5 *The strategy: three main focuses*

CHAPTER 5 – THE STRATEGY: THREE MAIN FOCUSES

The considerable efforts made by the government in recent years to support the regions have begun to bear fruit. However, these efforts must be pursued with a view to speeding up the development of regional economies and directly addressing the worrisome problems pointed out above.

To this end, with its **2001-2002 Budget Speech**, the government is tabling an economic development strategy designed specifically for the resource regions. This strategy will give rise to a series of pivotal actions adapted to the needs and priorities of these regions, as set out in the framework development agreements reached with the regions.

▪ *Strategy objectives*

The resource regions economic development strategy targets two key objectives:

- to support development of the resource regions' economic potential in order to narrow the development gaps that persist between these regions and Québec as a whole;
- to create and maintain a global environment that is conducive to job creation for these regions' inhabitants, especially young people.

▪ *Three main focuses*

To achieve these objectives, the strategy is driven by three main focuses.

- First, the government will step in to **increase the value-added and speed up the diversification** of the economy of the resource regions, zeroing in on the achievement of a greater critical mass in the manufacturing industry. The strategy also targets the development of new economic activities and the identification of high value-added niches of excellence.
- Second, it will act to **support and consolidate** one of the economic bases of the resource regions, i.e. **natural resource exploitation**, and to ensure its growth.
- Third, the regions must be provided with **tools better adapted** to project financing and the creation of businesses.

5.1 Main focuses

5.1.1 Increasing the value-added and speeding up the diversification of the economy

One of the major problems of the resource regions remains their dependence on a limited number of activity sectors, exploited by a few relatively large businesses. This means that the survival of several one-industry towns or villages is contingent on the vagaries of international markets.

The medium- and long-term development of the resource regions hinges on the development of value-added activities and a diversified economy.

- ***Support manufacturing activities***

Initiatives aimed at a broader diversification of the regions' economies and the development of value-added activities must be grounded on a sufficiently dynamic manufacturing sector. To achieve a true critical mass of businesses in each of the resource regions, this sector must thus benefit from rapid, targeted support.

- ***Stimulate secondary and tertiary processing***

Secondary and tertiary resource-processing activities must be stimulated if the value-added of the resource regions' economies is to increase. It is in these sectors that the regions in question enjoy comparative advantages, and resource-processing activities offer attractive growth potential.

- ***Develop new activities***

Over and above supporting existing activities, the first focus is on encouraging regional diversification. This involves triggering the start-up and development of new activities, which currently are virtually absent from the industrial structure of these regions.

- ***Foster the emergence of promising niches***

The resource regions economic development strategy targets certain particularly promising niches, banking on natural assets or new, recently discovered potential.

In several regions, the basic conditions and assets are already in place, so they can begin carving out such niches on their territory. Some examples of this are the presence in the regions of researchers and specialized staff, a skilled labour force, innovative businesses and specialized support organizations, possible synergies, and collaboration networks between businesses and training and research centres.

These assets must be fully utilized, and the resource regions economic development strategy has set aside specific means for this purpose.

▪ ***A balanced approach***

Whether the purpose is to increase value-added or to diversify activities, this focus calls for a balanced approach that couples small and big business. The investments sought will likely come largely from SMEs, even though big business has a vital role to play in the development of manufacturing activities and economic diversification.

5.1.2 Ensuring the growth of the natural resource sector

The economic structure of the resource regions continues to be heavily dependent on the development and exploitation of the natural resources with which they have been endowed. In fact, the industries founded on these activities are among Québec's most vigorous exporters.

Current problems – stemming largely from structural trends in the world marketplace – must be overcome, and the regions aided in this endeavour. Several natural resource processing industries have not yet realized their full development potential. It is possible to build even more on the expertise acquired in this sector to forge stronger, more diversified regional economies.

Furthermore, specific efforts must be made to ensure sustainable resource exploitation. For the three major industries concerned – forests, mining and fisheries – this focus thus calls for measures targeted, for example, at exploration in the case of mining resources, or the training of a skilled labour force in forest resource renewal.

5.1.3 Providing the regions with tools adapted to project financing and the creation of businesses

The third focus concerns the implementation, in the regions, of development tools tailored specifically to their needs. Existing financial tools, in particular, must be more flexible and better adjusted to small businesses faced with start-up or consolidation hurdles.

The government intends to improve the economic development tools available to the resource regions as follows:

- by reinforcing support measures aimed at developing entrepreneurship in these regions and fostering the start-up and consolidation of SMEs through a better support capacity for entrepreneurs;
- by providing more flexible financial tools better geared to start-up or consolidation of small businesses.

5.2 Strong support for the economic development of the resource regions

The government will earmark a total of **\$788 million** over the next three years for the implementation of this strategy.

The table below provides an overview of the financial impact of these measures for the government.

- By 2003-2004, the total financial impact will reach **\$461 million** in terms of budgetary measures, and **\$327 million** as concerns tax measures.
- It should be noted that once the tax measures are fully implemented, they will provide the resource regions with support in the amount of **\$178 million per year**.

TABLE 13

FINANCIAL IMPACT OF THE TAX AND BUDGETARY MEASURES IN FAVOUR OF THE RESOURCE REGIONS

(millions of \$)

Measures	2001-2002*	2002-2003	2003-2004	Total
Value-added and diversification of the economy				
Zero tax for manufacturing SMEs**	41	52	54	147
Tax credit for secondary and tertiary processing	7	21	37	65
Economic diversification and niches of excellence	41	64	38	142
Ensuring the growth of natural resources				
Support for forest development	61	33	33	126
Support for mining exploration	36	51	51	138
Facilitating SME financing and business creation	51	64	55	170
Total	237	284	267	788

Note: The sum of the amounts may not correspond to the total, due to rounding-off.

* This includes budgetary measures totalling \$40.3 million in 2000-2001.

** The paid-up capital of these enterprises may not exceed \$10 million. Enterprises with paid-up capital of between \$10 million and \$15 million may claim a partial tax holiday.

Most of the measures defined by the government are general in nature, but a number of them have been adapted to the specific needs of certain regions. The following table provides an estimate of the overall budgetary and fiscal impact of the measures introduced under this strategy, broken down by region.

- With respect to the tax measures, this breakdown emphasizes the relative economic significance of each region and the applicable measures.
- In budgetary terms, government action in the resource regions will be of comparable scope, averaging \$66 million per region for the first three years.

TABLE 14

FINANCIAL IMPACT OF THE BUDGETARY AND TAX MEASURES ON THE RESOURCE REGIONS

(millions of \$)

Regions	Cost of budgetary measures	Cost of tax measures	Total
Bas-Saint-Laurent	63	45	108
Saguenay–Lac-Saint-Jean	67	74	141
Mauricie	64	43	107
Abitibi-Témiscamingue	70	62	132
Côte-Nord	69	33	102
Nord-du-Québec	62	39	101
Gaspésie–Îles-de-la-Madeleine	66	31	97
Total	461	327	788
Average	66	47	113

5.3 Implementation of the strategy

The resource regions economic development strategy and its main focuses will be implemented in conjunction with the various organizations and authorities concerned.

Québec-wide

Administratively speaking, the ministère des Régions will be responsible for implementing the government strategy. Follow-up will be ensured by a joint ministère des Régions-ministère des Finances committee.

At the political level, the departmental committee on regional and territorial affairs (COMART) will be responsible for following up the economic diversification and job creation initiatives provided for in the government's development strategy for the regions.

At the regional level

In each region, a coordinating committee will be created, modelled on the regional administrative conference (CAR) of the Gaspésie–Îles-de-la-Madeleine region.

▪ ***Make-up of the regional coordinating committees***

These committees, chaired by the assistant deputy minister responsible for the region in question at the ministère des Régions, will be composed of the main departments involved in economic diversification and job creation, i.e.:

- the ministère de l'Industrie et du Commerce;
- Tourisme Québec;
- the ministère des Ressources naturelles;
- the ministère de l'Agriculture, des Pêcheries et de l'Alimentation;
- Investissement Québec;
- the ministère de la Recherche, de la Science et de la Technologie;
- Emploi-Québec (the ministère de la Solidarité sociale).

They will be assisted in this task by a representative of the regional development council (CRD) and a representative of the local development centres (CLD) of the region. Other partners may participate as needed.

▪ ***The committees' mandate***

These regional coordinating committees will be mandated to ensure that governmental action taken on-site, in the fields of job creation and economic development, is consistent. More specifically, they will be responsible for:

- ensuring the implementation and follow-up of the various strategic measures that affect their regions;
- playing a proactive role by sparking the development of new projects and providing appropriate expertise to help promoters develop them;
- reporting periodically to the joint ministère des Finance-ministère des Régions committee on how the strategies are progressing and on the results achieved.

The regional committees will also oversee the involvement of the other regional divisions of the government departments and agencies the most directly concerned by the projects being studied. Where necessary, they will enlist the collaboration of the central units of these government departments and agencies.

The committees must work to achieve:

- the closest possible collaboration between regional economic and government players and their networking;
- the design and execution of a communication plan to publicize and showcase the various intervention tools made available to potential or active promoters;
- tight linkage between regular government programs and specific measures of the regional strategy in order to maximize the spin-offs.

Part III

Actions in favour of the resource regions

PART III

ACTIONS IN FAVOUR OF THE RESOURCE REGIONS

For each of the strategy's three main focuses, important measures will be implemented. The following three chapters provide an overview of these measures as announced in the **2001-2002 Budget Speech**.

- The first chapter addresses the initiatives aimed at increasing the value-added and speeding up the economic diversification of the regions.
- The second chapter describes the actions designed to enhance the growth of the natural resource sector.
- The third chapter explains the measures put in place to facilitate the financing of SMEs and the creation of businesses.

For each of these three focuses, a description of the general measures introduced by the government in all of the resource regions is provided below.⁸ Details of the region-specific measures will be presented in each individual region during a tour in the weeks following the tabling of the **2001-2002 Budget Speech**.

▪ *Measures attuned to regional priorities*

Economic priorities for each region have been identified under the framework development agreements reached with regional stakeholders and overseen by the regional development councils (CRDs). The actions taken by the government will contribute to facilitate their implementation.

The priorities identified by the CRDs reflect the development potential pinpointed in each region. The following sectors were fingered as being of strategic importance:

- Sustainable forest management, including increased timber yield, secondary and tertiary manufacturing of wood products, harvesting of certain species such as black spruce, and waste reclamation from primary manufacturing and low-grade wood;

⁸ The tax measures implemented under the resource regions economic development strategy are explained in detail in the **2001-2002 Budget Speech**, Additional Information on the Budgetary Measures, Section 1, Revenue Measures, which constitutes the official reference in this regard.

- Mining resources, including the intensification of mining exploration – both in terms of resources currently being developed and new potential, such as lithium, vanadium and diamonds – and secondary and tertiary processing of mining products;
- Agricultural and biofood potential, including organic production, the development of agricultural soils, exploitation and processing of certain regional products with high development potential (berries, potatoes and crucifers);
- Energy potential, including wind energy, hydrogen and electrochemical technologies;
- Marine products and resources, including development and marketing of offshore species, secondary and tertiary processing of marine products and consolidation of aquaculture;
- Tourism potential, including winter tourism, ecotourism, recreational tourism, the development of outfitting operations and support for major region-specific cultural events with high tourism potential.

6 *Increasing the value-added and speeding up the diversification of the economy*

CHAPTER 6 – INCREASING THE VALUE-ADDED AND SPEEDING UP THE DIVERSIFICATION OF THE ECONOMY

Increasing the value-added and speeding up the diversification of the economy is the first focus of the resource regions economic development strategy defined by the government in its **2001-2002 Budget Speech**. It is a fact that the growth and vitality of the resource regions hinges on the expansion of their activities, enhanced development of their products and significant reinforcement of their manufacturing sector.

The various actions undertaken by the government to increase the value-added of the regions and speed up their economic diversification are divided into four categories:

- A major tax measure—zero tax for manufacturing SMEs⁹—will come into effect immediately, to strengthen the manufacturing vocation of the regions and bolster future industrial development;
- Fiscal and budgetary actions, also significant, are being introduced to stimulate secondary and tertiary resource processing, with a view to increasing on-site value-added;
- Various actions aimed at diversifying the regions' economies by developing new activities;
- Specific efforts to foster the emergence and development of niches of excellence, which is another effective means of enhancing the economic diversification of the resource regions.

9 The paid-up capital (defined as comprising most of the debts and shareholders' equity shown in the enterprise's financial statements) of these enterprises may not exceed \$10 million. Enterprises with paid-up capital of between \$10 and \$15 million may claim a partial tax holiday.

6.1 Supporting manufacturing activities: zero tax for SMEs

The government is announcing, effective immediately, a tax holiday applicable until December 31, 2010, for manufacturing SMEs¹⁰ located in remote resource regions.¹¹ This tax holiday applies to SMEs carrying out manufacturing and processing activities.

▪ *A major boost*

This measure is a major boost for the economy of these regions. In addition, its impact will be both immediate and lasting.

- Manufacturing SMEs in remote resource regions, which account for some 1 500 enterprises, will benefit immediately from a sizeable reduction in their operating costs, thanks to the tax holiday accorded in their favour. Over 95% of all manufacturing firms in these resource regions will thus see an improvement in their competitive position as of the current fiscal year.
- In the medium term, the tax holiday is intended to stimulate the growth and expansion of manufacturing companies, as well as the development of entrepreneurship, by attracting new investments in the resource regions concerned. The measure does not stipulate any maximum value for the tax holiday, for the express purpose of encouraging the growth of the most high-performing manufacturing SMEs.

10 The paid-up capital of these enterprises may not exceed \$10 million. Enterprises with paid-up capital of between \$10 and \$15 million may claim a partial tax holiday.

11 These are the Abitibi-Témiscamingue, Bas-Saint-Laurent, Côte-Nord, Gaspésie-Îles-de-la-Madeleine, Nord-du-Québec and Saguenay-Lac-Saint-Jean regions, as well as the RCMs of Mékinac and Haut-Saint-Maurice, which are located in the Mauricie region.

TABLE 15

**TAX HOLIDAY FOR MANUFACTURING SMEs IN REMOTE RESOURCE
REGIONS
NUMBER OF ENTERPRISES AFFECTED – 2001**

Paid-up capital*	Number of enterprises	Percentage
Less than \$5 million	1 378	91.1
\$5 million to \$10 million	61	4.0
\$10 million to \$15 million	20	1.3
Eligible for tax holiday	1 459	96.4
Others: \$15 million or more	54	3.6
TOTAL	1 513	100

* In general, paid-up capital comprises most of the debts and shareholders' equity shown in the enterprise's financial statements.

Source: Ministère des Finances du Québec estimate.

▪ ***How the measure will apply***

The tax holiday for manufacturing SMEs in remote resource regions:

- covers income tax, capital tax and the general payroll tax;¹²
- applies to incorporated manufacturing SMEs¹³ that are either new or already in existence;
- is not subject to a cap;
- will have a long-term effect, i.e. from the day after the Budget Speech to December 31, 2010, in order to provide enterprises with stable development conditions.

▪ ***A significant measure***

The measure put in place by the government is significant. It will stimulate job creation in the resource regions concerned, and represent an annual injection of \$57 million in favour of remote resource regions. The tax holiday for SMEs in remote resource regions will send a clear signal to investors that the government is committed to doing everything possible to stimulate job creation and investment growth.

12 This is the employers' contribution to the Health Services Fund.

13 The paid-up capital of these enterprises may not exceed \$10 million. Enterprises with paid-up capital of between \$10 and \$15 million may claim a partial tax holiday.

▪ *The relief provided to manufacturing SMEs*

The average relief provided by the tax holiday will represent, annually, close to \$36 000 per enterprise and \$1 900 per job.

TABLE 16

VALUE OF THE TAX HOLIDAY FOR MANUFACTURING SMEs

	Tax holiday per enterprise (in dollars)	Number of jobs	Tax holiday per job (in dollars)
Average for an eligible enterprise	35 900	19	1 889

<i>Tax holiday for manufacturing SMEs in remote resource regions</i>			
<i>Eligible enterprises</i>	<i>Tax holiday</i>	<i>Eligible regions</i>	<i>Eligibility period</i>
<ul style="list-style-type: none"> ▪ Incorporated manufacturing SMEs, either existing or new 	<ul style="list-style-type: none"> ▪ Income tax ▪ Capital tax ▪ General payroll tax ▪ No cap on the value of the tax holiday 	<ul style="list-style-type: none"> ▪ Bas-Saint-Laurent ▪ Saguenay–Lac-Saint-Jean ▪ Abitibi-Témiscamingue ▪ Côte-Nord ▪ Nord-du-Québec ▪ Gaspésie–Îles-de-la-Madeleine ▪ Mauricie: Haut-Saint-Maurice and Mékinac RCMs 	<ul style="list-style-type: none"> ▪ Beginning the day after the Budget Speech and ending December 31, 2010
<i>Special conditions</i> <ul style="list-style-type: none"> ▪ The value of the tax holiday is equal to 100% for enterprises with paid-up capital not exceeding \$10 million. ▪ Enterprises with paid-up capital of between \$10 and \$15 million may claim a partial tax holiday. 			

6.2 Stimulating secondary and tertiary processing

The resource regions must be able to better capitalize on the products they exploit. This enhanced development affects all secondary and tertiary processing activities, which must be stimulated. For this purpose, the government is implementing several far-reaching measures, as set out below:

- The government is introducing a refundable tax credit for processing activities.
- Two additional measures will apply to tax incentives already in force.
- Significant budgetary support will be provided to processing activities in order to increase the value-added of local products.

6.2.1 A refundable tax credit for resource-processing activities

A second major fiscal measure, just as vital as the preceding one, comes in the form of a refundable tax credit for manufacturing and processing activities in the resource regions. This tax credit will boost the economy of these regions by up to \$70 million for a given year.

▪ *Conditions*

The tax credit for manufacturing and resource processing is a refundable tax credit which substantially reduces the payroll costs of businesses carrying on certain eligible activities over a five-year period.

- The refundable tax credit is equal to 40% of the wages of eligible new employees,¹⁴ as of the start-up date of the project.
- This tax assistance is accorded for a five-year period once the business is declared eligible, and applies to jobs created since January 1, 2001.
- Eligible activities include the manufacturing and processing of wood and metals, projects in the agrifood sector and energy production.
- The tax credit is valid in all of Québec's resource regions.
- An eligibility certificate will be delivered by Investissement Québec.

¹⁴ Job duties relating to general administration are not eligible. The tax credit applies to payroll growth.

The principle of the refundable tax credit for processing activities in the resource regions is similar to that used to define tax measures in favour of R&D or the new economy. In all cases, the government uses the tax system to assume a portion of the payroll costs for certain pre-determined activities, during the start-up and expansion phases of businesses that invest in eligible activities. In this way, the government helps businesses carry out their investment projects by providing assistance commensurate with the number of jobs they create.

In the case of the refundable tax credit for processing activities in the resource regions, the impact on job creation should be felt directly, given that the tax credit is based on payroll growth, and thus obliges eligible businesses to achieve results accordingly.

▪ *Significant tax relief*

Thanks to these two tax measures, eligible businesses will benefit from a significant tax break. If we look at the example of a metal-processing firm that anticipates creating 35 jobs, the two measures implemented by the government will represent support of some \$2.6 million over the five-year project period. For each employee hired, this breaks down to \$15 960 per year, or \$79 800 dollars over five years.

TABLE 17

**IMPACT OF TAX MEASURES FOR THE RESOURCE REGIONS
EXAMPLE OF A METAL-PROCESSING FIRM***

Year	Number of employees	Value of tax assistance			Tax assistance per job (\$)
		Tax holiday (\$000)	Tax credit (\$000)	Total assistance (\$000)	
2000	0				
2001	25	90	283	374	14 900
2002	30	150	324	473	15 800
2003	35	212	364	576	16 400
2004	35	213	364	577	16 500
2005	35	202	364	566	16 200
Total		867	1 699	2 566	79 800
Five-year average					15 960

* Results obtained using a comparative cost simulation model designed by KPMG. The example shown above is that of a producer of cast and machined metal products. The firm has invested \$8.5 million and its average annual paid-up capital is \$9 million for the first five years. It has sales of \$11 million and pays an average wage of \$47 100.

<i>Refundable tax credit for processing activities in the resource regions</i>		
<i>Tax credit rate</i>	<i>Eligible regions</i>	<i>Eligibility period</i>
<ul style="list-style-type: none">▪ 40% of the wages of new employees for a maximum of five years▪ No maximum per job in terms of wages or tax assistance	<ul style="list-style-type: none">▪ Bas-Saint-Laurent▪ Saguenay–Lac-Saint-Jean▪ Mauricie▪ Abitibi-Témiscamingue▪ Côte-Nord▪ Nord-du-Québec▪ Gaspésie–Îles-de-la-Madeleine	<ul style="list-style-type: none">▪ Start-up date must be before December 31, 2004
<i>Eligible activities</i>		
<i>Wood products</i>	<i>Paper or cardboard products</i>	
<ul style="list-style-type: none">▪ Manufacturing of products from wood or manufacturing of specialized equipment intended for logging or wood processing▪ Examples: Doors and windows, furniture, cupboards and kitchen counters, engineered wood	<ul style="list-style-type: none">▪ Manufacturing and processing of products from paper or cardboard or manufacturing of specialized equipment intended for the manufacturing of paper or cardboard▪ Examples: Cardboard containers, boxes, bags, stationery supplies	
<i>Energy</i>	<i>Food processing</i>	
<ul style="list-style-type: none">▪ Production of non-conventional energy from biomass or hydrogen or manufacturing of specialized products or equipment intended for energy production or use	<ul style="list-style-type: none">▪ Manufacturing of food intended for human or animal consumption▪ Examples: Slaughterhouses, cheese factories, canning	
<i>Metal processing</i>	<i>Other</i>	
<ul style="list-style-type: none">▪ Manufacturing and processing of finished or semi-finished products from metal, or the manufacturing of specialized equipment intended for mining exploration or metal processing▪ Examples: Hardware items, automotive vehicle parts, structural steel	<ul style="list-style-type: none">▪ Reclamation and recycling of waste and residual materials resulting from natural resource exploitation or processing▪ Freshwater aquaculture (fish farming) or manufacturing of specialized equipment for freshwater aquaculture▪ Manufacturing of peat-based products	
<i>Special conditions</i>		
<ul style="list-style-type: none">▪ Activities relating to the sawing of logs or bolts, the manufacturing of paper pulp, paper or cardboard and the primary processing of metals are not eligible for the refundable tax credit for processing activities in the resource regions.▪ Activities that are eligible for the refundable tax credit for the Vallée de l'aluminium or the refundable tax credit for Gaspésie–Îles-de-la-Madeleine and certain maritime regions are not eligible for the refundable tax credit for processing activities in the resource regions.		

6.2.2 Improvement of the two tax measures already in effect

In order to complement the tax measures aimed at stepping up manufacturing and processing activities in the resource regions and make them consistent with the tax incentives already in effect, the government is introducing the following changes.

- ***Improvement of the tax credit for the Vallée de l'aluminium***

The government is improving the refundable tax credit for the Vallée de l'aluminium. In order to better support aluminum processing activities in the Saguenay–Lac-Saint-Jean region, the applicable period for this tax credit is being extended to five consecutive years.

Moreover, eligible activities will now include reclamation and recycling of waste and residual materials resulting from aluminum processing. It should be noted that activities benefiting from this tax credit are not eligible for the refundable tax credit for processing activities in the resource regions.

Refundable tax credit for the Vallée de l'aluminium

Tax credit rate	Eligible activities	Eligible region	Eligibility period
<ul style="list-style-type: none"> ▪ 40% of the wages of new employees for a maximum of five years ▪ No maximum per job in terms of wages or tax assistance 	<ul style="list-style-type: none"> ▪ Manufacturing of finished or semi-finished products from aluminum which has undergone primary processing ▪ Manufacturing of specialized equipment for aluminum production or processing businesses ▪ Reclamation and recycling of waste and residual materials resulting from aluminum processing 	<ul style="list-style-type: none"> ▪ Saguenay–Lac-Saint-Jean 	<ul style="list-style-type: none"> ▪ Start-up date must be before December 31, 2004

▪ ***Improvement of the tax credit for Gaspésie–
Îles-de-la-Madeleine***

The government is also improving the refundable tax credit for Gaspésie and certain maritime regions of Québec, announced in November of last year.

Eligible activities henceforth include the production of wind energy and the manufacturing of wind generators or specialized equipment intended for the production of wind power. The Matane RCM, in the Bas-Saint-Laurent region, will become eligible for this tax credit.

The refundable tax credit for Gaspésie– Îles-de-la-Madeleine and certain maritime regions			
Tax credit rate	Eligible activities	Eligible regions	Eligibility period
<ul style="list-style-type: none"> ▪ 40% of the wages of new employees for a maximum of five years ▪ No maximum per job in terms of wages or tax assistance 	<ul style="list-style-type: none"> ▪ Transformation of marine products (fish and seafood) 	<ul style="list-style-type: none"> ▪ Gaspésie–Îles-de-la-Madeleine ▪ Côte-Nord ▪ Matane RCM 	<ul style="list-style-type: none"> ▪ Start-up date must be before December 31, 2004
	<ul style="list-style-type: none"> ▪ Mariculture (sea farming) or manufacturing of specialized equipment for mariculture 	<ul style="list-style-type: none"> ▪ Gaspésie–Îles-de-la-Madeleine ▪ Côte-Nord 	
	<ul style="list-style-type: none"> ▪ Manufacturing of finished or semi-finished products in the marine biotechnology field 	<ul style="list-style-type: none"> ▪ Gaspésie–Îles-de-la-Madeleine ▪ Matane RCM 	
	<ul style="list-style-type: none"> ▪ Production of wind energy, manufacturing of wind generators or specialized equipment intended for the production of wind power 	<ul style="list-style-type: none"> ▪ Gaspésie–Îles-de-la-Madeleine ▪ Matane RCM 	

***The tax system: a powerful impetus for
regional development***

The government's resource regions economic development strategy comprises a pivotal tax-based component.

As explained above, several tax measures have been elaborated in recent years with a view to stimulating economic activity in these regions. These measures were designed, among other things, to foster the development of new-economy businesses. With this strategy, the Québec government is once again using the tax system to equip the resource regions with a support tool that boasts numerous advantages for economic development.

- Taxation is a means of encouraging economic activity that applies uniformly to all economic agents, and tax incentives provide automatic support.
- Businesses are capable of evaluating, risk-free, whether they can benefit from these measures and incorporate them into their business planning. Since the rules governing the granting of tax benefits are defined in advance, businesses have only to meet the eligibility conditions in order to claim them. Where the tax measure provides for the issuing of an eligibility certificate, the business receives a loan guarantee to ensure its financing.
- For the most part, these tax measures are incentive in nature, and are therefore conditional upon the achievement of results. Thus, businesses will not receive the attendant tax benefits unless they make a long-term commitment to these activities.
- From a government viewpoint, tax measures are generally easy to administer because they are across-the-board in nature, can apply to a large number of businesses and, for the most part, do not require the implementation of specific procedures.

The tax system is thus an efficient economic development tool that elicits a rapid, positive response from businesses. By inserting a tax-based component into the resource regions economic development strategy, the government is significantly bolstering existing support mechanisms and taking the necessary steps to fulfil its objectives more swiftly.

6.2.3 Support to increase the value-added of local products

Again with a view to boosting value-added in the resource regions, and in addition to the tax measures outlined above, the government is providing substantial budgetary support for investments made to step up processing of local products.

This support will be provided as follows:

- The government will support the processing and enhancement of farm products in the regions.
- Assistance will be granted for the upgrading of local slaughterhouses, in order to allow processing activities to be carried out in the regions.
- The government will support the creation of a wood product manufacturing brigade.

All told, close to \$12 million will be earmarked for these activities over the next three years.

▪ *Support for the processing and enhancement of farm products in the regions*

The government will encourage food-processing activities in the regions. Project promoters will receive a subsidy for projects involving the processing of local products and the development of niche farm products. These subsidies are to be repaid where the project's financial outlook permits, and will be reserved for farm businesses with annual sales of less than \$1 million that submit regional product processing projects.

In general, the assistance will cover between 40% and 75% of expenses, depending on the type of project, and may not exceed \$100 000 annually, or \$200 000 over a four-year period.

▪ *Upgrading of local slaughterhouses to allow processing activities to be carried out in the regions*

Currently, few local slaughterhouses are authorized to slaughter livestock for commercial purposes, since many of them do not comply with the sanitation standards in force. This situation limits development and processing prospects for by-products derived from livestock-raising activities in the resource regions.

The government is thus introducing a measure that will:

- enable certain slaughterhouses to comply with food safety and sanitation standards;
- diversify slaughtering capacity in the regions.

Livestock producers will thus have access to slaughterhouses that are in the vicinity of their operations and meet the standards in force.

Government assistance will provide for up to 50% of the costs of upgrading buildings and purchasing equipment to bring the slaughterhouses in question up to standard. It will also cover the inspection fees for these slaughterhouses. In addition, in the absence of local slaughterhouses, government assistance will cover 50% of the costs incurred to build new slaughterhouses designed to receive species for which there are currently no slaughtering facilities in the regions.

▪ ***Wood product manufacturing brigade***

For the purpose of identifying development prospects for the secondary and tertiary manufacturing of wood products, the government is implementing a measure intended to finance exploratory research and support entrepreneurial initiatives.

The budget envelope will be entrusted to Forintek, which will create an intervention brigade composed of its staff members, employees of the ministère des Ressources naturelles and consultants. This brigade will be responsible for creating projects, conducting exploratory research and helping promoters carry out their business plans. Assistance will be accorded in the form of subsidies and will amount to 80% of the costs of the exploratory research.

6.3 Fostering the development of new activities

Diversification also means stimulating the execution of projects in activity sectors unrelated to resources already being exploited, or whose potential is not sufficiently developed.

The government is taking actions aimed at:

- diversifying agriculture;
- bolstering tourism development.

The government will allocate more than \$40 million to these activities over the next three years.

6.3.1 Support for the diversification of regional agriculture

Growing demand in the agricultural sector has sparked the production of new commodities. However, the diversification and adaptation of farm production to demand is a very slow process. Currently, new productions and activities are often characteristic of emerging industries, with high financial risks and rapidly evolving technologies that have yet to be mastered.

Moreover, these activities are not yet developed enough to achieve a critical mass that allows them to expand without the benefit of government assistance.

Support for agricultural diversification in the regions will focus on:

- the development of new products;
- the growth of emerging products or products that are virtually non-existent in the resource regions;
- the testing of new farming practices and experimentation with farm models adapted to regional imperatives and sustainable development criteria.

This measure will support projects involving:

- market testing and the implementation and trial phases of new products, practices or technologies in farm businesses;
- consolidation and growth of businesses that have already embarked on this process.

Projects must be directly associated with job creation or consolidation in farm businesses. Eligible expenses include fixed assets, equipment, start-up costs and working capital.

In general, the assistance, which will be in the form of a subsidy or a conditional grant, financial prospects permitting, will cover between 40% and 75% of expenses, depending on the type of project. However, it may not exceed \$100 000 annually, or \$200 000 over a four-year period.

6.3.2 Enhancing the tourism potential of the regions

Tourism is an important economic activity for the resource regions and boasts considerable potential. Tourism development was fingered as a priority in the framework development agreements signed by the government and the regions. The government thus intends to promote the development of new tourism products.

The resource regions economic development strategy thus places special emphasis on tourism and contains measures providing for:

- the consolidation of outfitting operations;
- enhancing wildlife habitats in forested areas;
- investment in parks, wildlife sanctuaries and controlled zones (ZEC);
- enhancement work in wildlife sanctuaries;
- the signing of specific agreements with Tourisme Québec to develop tourism supply.

▪ *Outfitting operations consolidation plan*

The clientele of outfitting operations from outside Québec and Canada is growing. Ecotourism products are expanding apace, and clients are becoming increasingly insistent with regard to service quality. The government thus intends, through the Société de la faune et des parcs (FAPAQ), to implement the conditions required to increase the share of the international market held by Québec businesses.

More specifically, the government aims to adapt infrastructures to market requirements, consolidate enterprises and add new products, by offering project promoters assistance equivalent to 50% of the costs incurred to purchase tourism equipment.

This measure will attract more clients from abroad and create jobs for young workers. Major investments in the development of outdoor activities and ecotourism as part of outfitting operations will be instrumental in emphasizing the originality and renown of Québec as a destination on national and international tourist markets. This intervention will have a significant impact on tourism in general.

▪ ***The Forêt-Faune program***

The Forêt-Faune program is a new FAPAQ initiative aimed at financing local and regional projects involving integrated forest resource management. It acts as a complement to the forest resource development program of the ministère des Ressources naturelles, and specifically targets the restoration and enhancement of wildlife habitats in forested areas.

This program will provide for projects to:

- improve deer habitat (enhancement of deeryards);
- expand access to wildlife resources;
- develop thresholds and deflector plates to boost fish production;
- clean watercourses and stabilize riverbanks to improve fish reproduction.

These initiatives are crucial to integrating silvicultural activities with non-timber forest values such as recreation or tourism. Mainly a responsibility of FAPAQ, they may be carried out in partnership with wildlife and forestry associations, local stakeholders and the ministère des Ressources naturelles.

▪ ***Faune et Parc program for controlled zones (ZECs)***

ZECs are territories for which the government has entrusted control and management of hunting and fishing activities to user groups. The public can enjoy the wildlife resources on these territories by paying the fees set by the management agency recognized by the government.

The demand for recreational activities in a natural environment is escalating. ZECs must take advantage of the emergence of these new demands to give their service supply process a more recreational focus and renew their equipment.

FAPAQ will thus provide financial support to ZECs looking to improve and diversify their products by contributing the equivalent of 50% of the value of the projects submitted.

- ***Enhancement work in wildlife sanctuaries***

The government will also grant some \$3.3 million to the Société des établissements de plein air du Québec (SÉPAQ) over the next two years to carry out enhancement and investment work in Québec's various wildlife sanctuaries.

- ***Specific tourism agreements***

An amount of \$18 million will be made available to Tourisme Québec over a three-year period for the signing of specific tourism agreements with the regions. These agreements will help bolster local initiatives aimed, among other things, at improving tourism supply, and must be implemented similarly to the framework development agreements signed by the government and the CRDs.

6.4 Fostering the emergence and development of niches of excellence

Still with the objective of increasing the value-added and speeding up the diversification of the economy, the economic development strategy targets certain particularly promising niches, thereby banking on natural assets or new, recently discovered potential.

In this respect, several regions already boast certain assets enabling them to envisage the consolidation of niches of excellence on their territory, such as the presence of researchers and specialized staff, a skilled labour force, innovative businesses active in growth sectors, specialized support organizations, etc. The existence of these niches allows for the carrying out of high value-added activities in technology-intensive sectors that tap into these regional assets. In general, such niches also offer well-paying, quality jobs and a critical mass that attracts businesses and triggers start-ups.

The resource regions will target their interventions and devote their efforts to existing sectors of activity that show promise. The resource regions are also encouraged to pinpoint new activities in areas where they are most likely to create niches with high development potential.

6.4.1 Measures targeting certain regions

First, an amount of close to \$44 million will be earmarked for the next three years in order to support, using specific measures, the development of niches already identified in the resource regions, such as:

- aluminum;
- hydrogen;
- marine resources, sciences and technologies.

These measures will take the form of grants to research centres, the creation of technological development firms and assessment of the potential of certain niches. They will also underpin the implementation of the development strategy for the marine resource, science and technology sector that is currently being prepared by the Québec government in conjunction with its partners.

The details of these measures will be explained during a regional tour intended to familiarize the public with the resource regions economic development strategy. This tour will take place in the weeks following the tabling of **2001-2002 Budget Speech**.

6.4.2 Support fund for the development of niches of excellence

In addition, the government has allocated funding of \$28.8 million for the creation of a fund. To be administered jointly by the ministère des Finances du Québec and the ministère des Régions, this fund will enable the government to contribute to the carrying out of:

- strategic watches, to identify niches with high development potential;
- studies and analyses with a view to assessing the potential of new niches, the feasibility of different concepts proposed by enterprises or organizations, and business opportunities;
- pilot projects;
- R&D activities;
- priority investment projects.

Additional measures to speed up economic diversification

In addition to the measures set out above, which will apply to all resource regions, various region-specific measures will also be introduced to diversify regional economies. To this end, the government will pump over \$17 million directly into the regions over the next three years. The details of these measures will be presented in the weeks following the tabling of the **2001-2002 Budget Speech**.

***Increasing the value-added and speeding up the
diversification of the economy***

Summary of measures

Objective

To contribute to the diversification of economic activities in the resource regions

Highlights

- Tax holiday for manufacturing SMEs* in remote resource regions
- Refundable tax credit for processing activities
- Improvement of two tax measures
- Support to increase the value-added of local products
 - Support for the processing and enhancement of farm products in the regions
 - Upgrading of local slaughterhouses
 - Wood product manufacturing brigade
- Support for the diversification of regional agriculture
- Tourism development
 - Outfitting operations consolidation plan
 - Forêt-Faune program
 - Faune et Parcs program for controlled zones
 - Enhancement work in wildlife sanctuaries
 - Specific tourism agreements
- Fostering the emergence and development of niches of excellence
 - Measures targeting certain regions to foster the development of niches of excellence
 - Support fund for the development of niches of excellence

* The paid-up capital of these enterprises may not exceed \$10 million. Enterprises with paid-up capital of between \$10 and \$15 million may claim a partial tax holiday.

7 *Ensuring the growth of the resource sector*

CHAPTER 7 – ENSURING THE GROWTH OF THE RESOURCE SECTOR

The development of natural resources related to mines, forests and fisheries has led to the creation of many cities, towns and villages in Québec's resource regions.

Today, natural resource development is still the mainstay of the economy in these regions. The proportion of jobs directly related to natural resources in the seven resource regions amounts to 17%, compared with 5% elsewhere in Québec. Support must be given to the employment sectors concerned, which are often vital to municipalities.

7.1 Promoting sustainable development of forest resources

Two major budgetary measures will support the development of forest resources. Over the next three years, the government will allocate over \$120 million to these measures.

7.1.1 Forest resource development program

The forest resource development program, launched in 1995, comprises two components, the first of which is intended for the holders of timber supply and forest management agreements (TSFMAs) and the second for all other interested individuals or organizations.

The first component makes it possible to fund silvicultural work aimed at boosting wood production and developing wildlife habitats and landscapes. It also allows TSFMA holders to test management techniques that might be more effective from silvicultural, economic and environmental standpoints and to harmonize their activities with those of Native people.

The second component makes it possible to fund silvicultural, wildlife, environmental, recreational or educational projects for both private and public forests. Since 1995, local and regional stakeholders have made extensive use of the second component of the forest resource development program for such purposes as improving Québec's network of snowmobile and bicycle trails, developing blueberry production, trying out ginseng farming, enhancing access to ZECs and outfitting operations and managing public land located within municipalities.

Work carried out under these two components is particularly important for developing the forest industry and harmonizing its activities with those of local and regional communities.

Therefore, the government is committed to renewing the envelope for this program for the next three years.

7.1.2 Forest job creation program

The forest job creation program is intended for forestry cooperatives and other organizations that work in forest management. Its purpose is to:

- create and maintain jobs in the forest management sector;
- train manpower responsible for silvicultural work;
- improve forest workers' skills;
- promote the hiring of young workers and the integration of new workers into the regular teams of silvicultural businesses.

While addressing regional employment problems in the forest sector, this program helps to renew the pool of workers and generally upgrade their skills.

It also enhances the status of forest occupations and helps Québec to meet the challenges involved in sustainable forest development, such as the certification of forestry practices and the professionalization of silvicultural occupations.

To renew the silvicultural skills of existing workers and train the new manpower needed to ensure the sustainable development of forest resources, the government will extend the forest job creation program for one year.

7.2 Promoting mining exploration

As mentioned earlier, Québec's mining industry is facing major challenges. It is important, therefore, that, as of today, it have the tools it needs to ensure its survival and that of the jobs dependent on it.

The government is therefore proposing a series of complementary measures, which meet the needs of the industry in various ways:

- To increase financial support for the industry and thus promote renewed investment in exploration, the government is introducing a refundable tax credit for mining exploration.

- To support the industry in its efforts to broaden the range of its products and diversify its activities, the government is creating a mining exploration diversification fund in partnership with the Fonds de solidarité FTQ. It is also renewing its financial support for junior exploration companies, which are mainly involved in searching for high-potential ores.
- To develop the full potential of existing mining sites, the government is renewing the financial support measures for mining development and the financial assistance measures for mining exploration.
- The mining industry in Québec's regions must adapt its technologies and procedures to the demands of the competitive, global context of mineral products. To help the industry achieve this, the government is introducing a financial assistance measure for technical and economic studies and technological innovation.

Over the next three years, the government will invest nearly \$140 million in this initiative, which is aimed at revitalizing and diversifying exploration activities. The objective is to increase exploration expenditures to a minimum of \$450 million within three years.

7.2.1 Refundable tax credit for mining exploration companies

The government is introducing a refundable tax credit for mining exploration companies. This tax measure will substantially reduce the cost of investments required and thus the risk assumed by firms during exploration. It will also apply to activities relating to renewable energy, energy conservation and oil and gas exploration.

For the government, the financial impact of this measure will be \$34 million over a full year. The tax credit will take the form of assistance paid directly to businesses carrying out exploration work and certain development activities in Québec.

The refundable tax credit will be equal to:

- 40% of eligible expenses in the case of non-producing companies that do not carry out development work;
- 20% of eligible expenses in the case of producing companies;
- 45% (non-producing companies) and 25% (producing companies) of eligible expenses in the case of companies that invest in the Near North and Far North;

- 40% of expenses relating to renewable energy, energy conservation and oil and gas exploration.

Until December 31, 2001, eligible businesses will have the choice of claiming the new refundable tax credit or continuing to benefit from the flow-through share system. After that date, the tax credit will completely replace the flow-through share system.

<i>The new system of direct assistance for businesses for mining exploration expenses</i>				
<i>Eligible expenses</i>	<i>Examples of eligible expenses</i>	<i>Tax credit rate</i>		
		<i>General</i>	<i>With improvement for the Near North and Far North</i>	
Mining exploration expenses and certain development expenses	<i>Exploration expenses</i>			
	▪ Prospecting costs			
	▪ Cost of geological studies			
	<i>Development</i>			
	▪ Cost of drilling or digging an oil or gas well			
		Non-producing company (junior)	40%	45%
		Producing company (senior)	20%	25%
Expenses related to renewable energy and energy conservation	Expenses related to the acquisition and installation of a wind turbine for test purposes		40%	

- ***A new measure that is much more generous than the old one***

The new refundable tax credit for mining exploration companies is more generous than the flow-through share system.

As shown in Table 18, the replacement of the flow-through share system with the refundable tax credit represents a major improvement for small businesses that engage solely in exploration activities.

Taking the applicable deduction and mining duties credit into account, these businesses will now benefit directly from financial support from Québec equal to 66% of the amount they invest. In comparison, financial support used to be 43% and was intended for investors. All told, for a business and its investors, the net cost of an exploration or development expenditure of \$100 in a northern exploration zone (Near North or Far North) will decrease from \$21 to \$14.

TABLE 18

**NET AFTER-TAX COST OF A SURFACE MINING EXPLORATION EXPENDITURE OF \$100 IN A NORTHERN EXPLORATION ZONE IN QUÉBEC
NON-PRODUCING COMPANY (JUNIOR) – 2001**
(in dollars)

	Current flow-through share system ¹	New tax credit system
Exploration expenditure	100	100
QUÉBEC TAXATION SYSTEM		
<i>For investors</i>		
Deductions:		
Value of the basic deduction under the flow-through share system (100%)	25 ²	
Value of the additional deduction for exploration in Québec (25%)	6 ²	
Value of the additional deduction for surface costs in Québec (50%)	12 ²	
Sub-total	43	
<i>For businesses (corporations)</i>		
Tax credit:		
Value of the refundable tax credit (40%)		40
Value of the refundable tax credit for northern exploration zones (5%)		5
Deductions:		
Value of the basic deduction of 100%		21 ³
Sub-total		66
Amount of expenditure assumed by the Québec government	43	66
FEDERAL TAXATION SYSTEM		
Amount of expenditure assumed by the federal government	36	20
Amount of expenditure assumed by both levels of government	79	86
Net cost for the business and its investors	21	14

1. Financed by individuals residing in Québec.

2. At the maximum marginal tax rate of 24.5%.

3. At the corporate tax rate of 9.04%, plus a rate of 12% in respect of duties payable under the *Mining Duties Act*.

The replacement of the flow-through share system with the refundable tax credit raises Québec's financial support for large companies that also carry out production activities from 32% to 52 % of the amount invested. For such companies and their investors, the net cost of the expenditure given in the above-mentioned example will fall from \$40 to \$27.

It should also be noted that the new refundable tax credit represents a major improvement for activities relating to renewable energy and energy conservation, since the tax assistance granted to this activity sector will no longer be less than that awarded to the mining sector, as was the case previously.

▪ ***Support adapted to the needs of mining regions***

The refundable tax credit for mining exploration companies is designed to meet the specific needs of the sector and the regions:

- It will benefit exploration companies directly and is thus different from and more efficient than the old system of flow-through shares.
- The distinction drawn between producing and non-producing companies makes it possible to improve the system for small exploration firms that specialize in this activity and particularly need financial support from the government.
- It should also be noted that the tax credit being introduced is permanent.

▪ ***Upcoming elimination of the flow-through share system***

The introduction of the new tax credit will be accompanied by the elimination of the flow-through share system. As mentioned above, the new system is more generous than the one it replaces.

The new system will also be more efficient:

- Judging from the results obtained with similar tax support for research and development and the new economy, support provided in the form of a refundable tax credit definitely generates the type of investment that this measure is designed to stimulate.
- In fact, the flow-through share system has lost some of its appeal for investors in recent years and has thus had only a limited impact on the funding of mining exploration.

The introduction of a refundable tax credit will therefore stimulate exploration activities by both large and small businesses. However, to avoid problems for small, non-producing firms, the government will

eliminate the flow-through share system gradually. Both systems will be applied concurrently in 2001, but businesses will have to choose between the two.

7.2.2 Creation of the Fonds de diversification de l'exploration minière

To complement the refundable tax credit for mining exploration companies and boost its impact, the government is introducing a measure intended specifically for small mining exploration firms.

In partnership with the Fonds de solidarité FTQ, the Québec government is creating the Fonds de diversification de l'exploration minière:

- The capital of this mining exploration diversification fund will be \$50 million, of which 70% will be subscribed by the government and 30% by the Fonds de solidarité FTQ. Both partners will make subscriptions over a five-year period. Other private or institutional investors will be able to join the initial partners in order to increase the fund's capital.
- The fund will also call upon a consortium of local specialists and mining exploration companies to direct it toward promising projects and ensure technical follow-up of files.
- The fund will make investments in the form of subscriptions to the capital stock of small exploration companies.
- The fund will invest in projects in existing mining regions with good diversification potential and in projects in the Near North and Far North, where the potential for discoveries is significant.

▪ *Create leverage to diversify mining production*

The mining exploration diversification fund will target mainly investments for diversifying current mining production in traditional mining regions and in new exploration regions.

To that end, it will offer direct financial support to small exploration firms, thus creating real leverage:

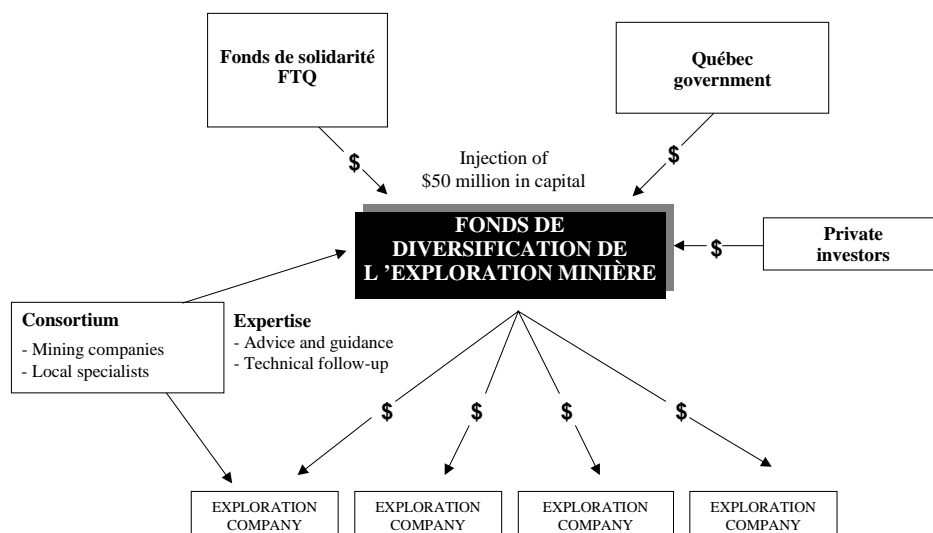
- It will allow the government to direct its support toward specific projects that could not be implemented without such assistance.
- The additional direct funding supplied to small exploration companies will supplement the budgetary support provided by the government. Government support will stimulate investment through the fund by partners, namely, the Fonds de solidarité FTQ and private investors.

- In addition, investments financed by the fund should increase the chance of discoveries in the field and thus attract other private investors, generating renewed investment by large companies.

This measure, which supplements the refundable tax credit for mining exploration companies, is designed to accelerate the necessary recovery of exploration activities in Québec.

DIAGRAM 2

FONDS DE DIVERSIFICATION DE L'EXPLORATION MINÈRE



7.2.3 Support for distressed junior exploration companies

To increase exploration work by junior companies on sites with high mining potential, the government is renewing its support program introduced in 2000-2001.

To be eligible for the program, businesses must be run by a parent company headquartered in Québec, have less than \$500 000 in liquid assets and have carried out a minimum of \$500 000 worth of off-site exploration work in Québec since 1999.

Eligible businesses will be entitled to maximum financial assistance of \$500 000, breaking down as follows:

- a contribution toward working capital equal to three times the business's contribution, up to \$150 000;
- a contribution of up to \$350 000 toward exploration work carried out in Québec during fiscal 2000-2001.

7.2.4 Financial support for mining development

The implementation of a number of projects with high mineral potential is uncertain because of constraints related to the funding of projects or the absence of appropriate access infrastructures.

To make it possible to carry out these projects, the government is introducing a development program for mineral reserves on sites with high mineral potential. Assistance will be equal to up to 33 1/3% of the cost of development work and up to 20% of investments made in establishing mining infrastructures.

7.2.5 Financial assistance for mining exploration

The government would like to renew mineral reserves in Québec's mining regions by granting financing assistance to businesses for surface exploration work, deep drilling operations and drift digging for mineral exploration. For this purpose, the government is renewing and improving the mining exploration financial assistance program created in 2000-2001 for Abitibi-Témiscamingue and extending it to the other resource regions.

- Advanced exploration work is aimed at discovering new mineral reserves in the very short term, i.e. within two years or less, in the vicinity of operating mines. The assistance offered to eligible businesses will allow them to finance 50% of the cost of drift driving operations and other related exploration work, up to \$1 million per project.
- Deep drilling is aimed at discovering new ore body zones in geological “extensions” of known deposits. Financial assistance will be equal to 50% of the cost of drilling the portion of a borehole located between 400 and 1 000 metres beneath the surface and up to 75% of the cost of drilling the section located below 1 000 metres, for a maximum of \$50 000 per borehole.
- Lastly, surface exploration work is aimed at discovering, in the medium term, new deposits in sectors with good mineral potential. Eligible businesses will receive assistance equal to 50% of expenses, up to \$50 000 per project or \$100 000 per project if the latter is located north of 50°15' latitude.

7.2.6 Financial assistance for technical and economic studies and technological innovation

Given the highly competitive context that currently prevails in mining production countries, Québec mining developers must continue to boost their productivity. They will achieve this goal by pursuing their efforts in the field of technological innovation.

To support mining producers, the government is introducing financial assistance in the form of a subsidy equal to 50% of expenses related to conducting technical and economic studies, carrying out R&D and technological innovation activities that target the environment, increasing productivity, developing value-added products and marketing mineral products.

7.3 Support for the upgrading of fishing boats

After being the economic engine of Québec's maritime regions for many years, the fishing industry was hard hit by the collapse of groundfish stocks in the early 1990s. Owing to the moratorium imposed by the federal government, the industry saw its landings decline by nearly 50%. In 1999, landings of fish and shellfish totalled about 55 000 tonnes, compared with 100 000 tonnes prior to the collapse of the resource. With regard to employment, the number of people working in fishing activities has declined by around 40% over the past 10 years.

Today, catching operations are conducted by some 1 100 fishing firms and provide approximately 4 000 direct jobs for fishers and assistant fishers. In recent years, these workers have seen their incomes fall substantially. Therefore, they have invested less in the upkeep of their boats, and a large part of Québec's fishing fleet is now faced with major challenges. Boats are old, in poor condition or ill-adapted.

Over the past two years, there has been a partial recovery in the groundfishery. However, current incomes are not high enough to allow owners to upgrade their boats or restore them to working order.

Aware of the economic importance of fishing activities for maritime regions, the government has decided to participate financially in repairing a large part of Québec's fishing fleet. Consequently, \$12.5 million worth of upgrading work will be carried out over the next three years. This work will bolster employment for the fishers targeted by this measure and foster the competitiveness of Québec's fishing fleet, thus allowing it to obtain its fair share of federal funding.

The proposed assistance will be used to build and repair boats belonging to fishers in Québec's maritime regions. Depending on the type of boat and the region, this assistance will be equal to between 10% and 50% of the cost of work.

<p><i>Additional measures to support the development of the resource regions</i></p>

<p>An additional \$3.1 million will be allocated over three years to special measures aimed at consolidating the economic bases of the resource regions. The details of these measures will be presented in the weeks following the tabling of the 2001-2002 Budget Speech.</p>
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<p><i>Ensuring the growth of the resource sector</i></p>

<p><i>Summary of measures</i></p>
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<p>Objective</p>

<p>To promote natural resource exploration and development</p>
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<p>Highlights</p>

<p>— Forest resources</p>

- | |
|--|
| <ul style="list-style-type: none"> — Forest resource development program — Forest job creation program |
|--|

<p>— Mining resources</p>

- | |
|--|
| <ul style="list-style-type: none"> — Refundable tax credit for mining exploration companies — Creation of the Fonds de diversification de l'exploration minière — Support for distressed junior exploration companies — Financial support for mining development — Financial assistance for mining exploration — Financial assistance for technological innovation |
|--|

<p>— Upgrading of fishing boats</p>
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8 *Facilitating financing of SMEs and the creation of businesses*

CHAPTER 8 – FACILITATING FINANCING OF SMEs AND THE CREATION OF BUSINESSES

The third focus of the strategy is to supply the regions with tools adapted to project financing and the creation of businesses. This consists in providing SMEs with the mechanisms needed to develop their activities, and facilitating the carrying out of corporate projects.

Two types of action are being taken to this end:

- The government is implementing measures to support entrepreneurship;
- Funding mechanisms better suited to the needs of SMEs are being established.

8.1 Measures to support entrepreneurship

The resource regions' economic development increasingly depends on the entrepreneurial spirit of their inhabitants, i.e. their ability to create new businesses, new products and, thereby, new jobs.

Entrepreneurs are the springboard for launching and developing businesses in the regions. By creating jobs, new businesses encourage the labour force to stay in the region.

To facilitate both the emergence of new businesses and the financing of new projects, the government is bolstering the capacity for action of local development centres (CLD), increasing support for women's entrepreneurship and facilitating businesses' efforts to become more competitive. A total of nearly \$44 million will be injected into this measure over the next three years.

8.1.1 Measures to bolster the capacity for action of local development centres

The government, in conjunction with the regional county municipalities (RCM), intends to bolster the capacity of local development centres (CLD) to take action in the resource regions. All told, it will be earmarking \$21.6 million over three years for the implementation of two measures, the first designed to bolster the capacity to act of the CLDs and the second, to support rural areas. The RCMs concerned will be asked to contribute \$7.5 million toward this government effort.

▪ ***Bolstering the capacity for action of the CLDs***

Through more effective monitoring, this measure will increase the economic spin-offs of investments in businesses by the government and its financial partners, as well as enhance the competitiveness of businesses located in the regions by encouraging them to network.

Each CLD will have:

- an additional \$100 000 annually to strengthen its capacity to take economic and occupational initiatives aimed at providing better support to industrial promoters in its territory;
- an additional \$27 000 over three years to upgrade its computer system, thereby making it part of a more efficient and more secure electronic network.

The government also intends to bolster the capacity for action of the local investment fund (FLI) to help stimulate business creation, expansion and consolidation. For this purpose, the ministère des Régions will receive additional funding over the next three years to enable the most successful CLDs to grant additional small-business loans totalling nearly \$21 million as part of their FLI.

▪ ***Support for rural areas experiencing difficulty***

The government will make a priority of providing specific assistance to rural areas experiencing major social and economic difficulties. The economic recovery of these communities hinges on the creation of sustainable employment built on the exploitation of their own special resources, potential and assets.

Several measures under the resource regions economic development strategy are targeted at rural areas. However, in order for the most vulnerable communities to benefit fully from these measures and thereby revitalize their economy, specific assistance is imperative.

Thus, the government and its partners will invest nearly \$11 million to provide the CLDs with the necessary resources to sustain initiatives launched by entrepreneurs in rural areas and support each phase of development of their projects (e.g. seed capital, specific expertise, microprojects, resource inventory, etc.), including social economy projects.

8.1.2 Regional investment funds for women's entrepreneurship

In April 1997, the ministère de l'Industrie, du Commerce, de la Science et de la Technologie committed to creating a task force to study the financing of entrepreneurship ventures led by women. The report of the task force, entitled *Entreprendre au féminin*, clearly shows that access to financing is a problem for many businesswomen. According to the report, financial institutions are more reluctant to grant funding to women entrepreneurs. Furthermore, the fact that women entrepreneurs hesitate to get into debt makes financing even harder. This situation directly affects the size and growth of women-owned businesses.

Attuned to this problem, the Québec government and the Fonds de solidarité FTQ are joining forces to create investment funds for women entrepreneurs in each of the resource regions. These funds will support entrepreneurship ventures led by women by offering an equity investment of \$400 000 per venture over three years, to be financed by the Fonds de solidarité FTQ. The government will assume the operating costs inherent in the creation of these funds.

All pre-start-up and start-up ventures run by women are eligible, except for those in the retail and restaurant sectors, unless it is demonstrated that the venture is essential to the community's revitalization.

Financial assistance of up to \$50 000 will be granted by the fund in the form of either an unsecured loan, a convertible debenture or capital stock. The fund will also offer consultant services to support women entrepreneurs during the launching and growth of their business.

Women entrepreneurs will receive further financial support, primarily in the form of a loan guarantee, under the programs administered by Investissement Québec, which will be adjusted to take into account the reality of women's entrepreneurship. However, the total amounts granted may not exceed the total contribution received from the Fonds de solidarité FTQ.

8.1.3 Innovation and competitiveness

Rapid integration of the most advanced production techniques is crucial to a business's capacity to innovate and remain competitive. The government already offers financial assistance for the integration of such techniques, especially simultaneous engineering and just-in-time production, under the innovation component of the Impact PME program of the ministère de l'Industrie et du Commerce. Financial assistance is provided for the following initiatives:

- industrial research and development;
- technology transfer;
- improvement of production processes;
- strategic watch.

The government is increasing the envelope of the Impact PME program to enable the ministère de l'Industrie et du Commerce to support a greater number of businesses in the resource regions.

Financial assistance is provided in the form of a maximum wage subsidy of \$22 500 over two years for hiring qualified personnel to support the business in installing new technologies. Maximum financial assistance of \$15 000 per year is also offered to cover professional fees, or other expenses, for studies or consultant services related to the installation of advanced production techniques.

8.1.4 Business retention and expansion

While establishing businesses in the resource regions is a priority, supporting existing businesses is just as important, particularly if they are experiencing difficulty or are looking to move their operations out of Québec. The ministère de l'Industrie et du Commerce, through the business retention and expansion component of the Impact PME program, offers technical and financial support to businesses that:

- are considering moving or expanding their operations outside Québec;
- are vulnerable to the point of shutting down in the short term.

In order to offer greater support to businesses that are expanding or in a precarious situation, the government intends to increase the envelope of the Impact PME program of the ministère de l'Industrie et du Commerce.

The maximum financial assistance granted under this program is equal to 75% of the cost of any study, analysis or business plan required to assess or rectify a business's situation.

8.1.5 Hiring of young graduates

The resource regions economic development strategy and the related measures will increase the job opportunities for the regions' youth. However, the government intends to continue supporting, in an even more direct manner, the hiring of young graduates by SMEs.

Through their dynamism, new approaches and knowledge, young people armed with a diploma or degree contribute to the vitality of businesses and their communities.

To help attract these young people to and encourage them to stay in the resource regions, the government intends to enhance the Impact PME program of the ministère de l'Industrie et du Commerce by offering subsidies to businesses that hire young graduates, i.e. no older than 35.

The eligibility criteria will therefore be broadened to cover various eligible specialties of young employees, including management, cost and accounting. As well, the number of subsidized jobs per enterprise will be increased from two to three, and promotional activities outside Québec will now be eligible. Consequently, any employer who hires an eligible young graduate to a full-time position for a minimum of two years will receive a maximum wage subsidy of \$22 500 over this period.

8.2 More suitable funding mechanisms

The Québec government has introduced numerous tools over the years to enable local and regional players to help launch or consolidate businesses. However, the resource regions require tools that are better adapted to their particular situation in order to facilitate funding of existing SMEs.

To that end, the government intends to:

- extend the economic project support program (PSPE) to all resource regions;
- foster the financing of SMEs in the regions by enabling Garantie Québec to grant more loans;
- implement a cyclically adjusted working capital assistance program for technology-intensive businesses;
- foster the financing of businesses and cooperatives by supporting the creation of Capital régional et coopératif Desjardins, and enhance the Cooperative Investment Plan;
- support the financing of leasehold improvements to industrial buildings of SMEs;
- improve the assistance program for waste management businesses.

The above measures will have a financial impact for the government of nearly \$90 million over the next three years.

8.2.1 Economic project support program

In its *2000-2001 Budget Speech*, the government announced a new financial measure in favour of the Gaspésie–Îles-de-la-Madeleine region: the economic project support program (PSPE). Under this program, investment projects of more than \$500 000 that do not qualify for the Private Investment and Job Creation Fund (FAIRE) program are eligible for financial assistance.

The PSPE program, which is tailored to the needs of SMEs, will be extended to all seven resource regions.

The attendant financial assistance can take the form of various non-refundable contributions. The budgetary impact of the financial assistance granted may not exceed 15% of eligible expenses per project; however, it will be possible to combine this measure with assistance granted under other programs, if this is deemed important for the implementation of the projects. The PSPE program will be administered by the ministère des Régions.

8.2.2 Financing of SMEs in the regions

SMEs in the regions encounter major problems obtaining capital, especially loans, due largely to the fact that financial institutions are hesitant to invest in business start-ups in areas where the longevity of businesses is uncertain.

To make it easier for SMEs in the regions to obtain capital, the administrative rules of Garantie Québec will be changed to favour the granting of loans to SMEs located in the resource regions. Garantie Québec will grant the loans on a business basis, in accordance with its financial criteria.

As a result of this government initiative, over \$75 million in new loans will be offered specifically in the resource regions, thereby promoting the launching and expansion of businesses.

8.2.3 Cyclically adjusted working capital assistance program

With the recent turn in economic conditions, certain businesses are under financial stress. This situation is liable to continue such that, without interim support, the survival of some of these businesses may be threatened, even if the outlook in terms of their profitability is good.

The government is therefore introducing a working capital assistance program for businesses in technology-intensive sectors that play a major economic role in several regions. Financial assistance will be granted to businesses whose profitability is affected by the current economic conditions but that have a reasonable chance of becoming profitable again. Businesses that are part of a conglomerate are not eligible.

The program offers a loan guarantee covering up to 80% of the net loss on a loan made by a financial institution. In certain cases, a loan rather than a loan guarantee may be offered. The financial assistance granted may not be used to consolidate an outstanding loan. Interest payments and capital repayment may be deferred for up to one year as of the date of the first loan disbursement. During this time, interest on the loan will be capitalized. At the end of the initial moratorium on capital repayment, the loan and the capitalized interest must be paid back over a maximum period of five years.

8.2.4 Fostering the financing of businesses and cooperatives

The government is introducing a significant tax measure under the resource regions economic development strategy to support the creation of the Capital régional et coopératif Desjardins fund, an additional funding mechanism to help the resource regions. This fund is intended to improve the capitalization of SMEs and cooperatives. The tax measure being introduced by the Québec government takes the form of a non-refundable tax credit regarding the acquisition of shares in Capital régional et coopératif Desjardins. This measure will have a financial impact of \$75 million over a full year.

This important tax measure will be supplemented by a budgetary measure, at a cost of \$5 million over the next two years, and improved tax treatment of the Cooperative Investment Plan, which will have a financial impact of \$2 million over a full year.

The government is hoping that this measure will marshal venture capital for the resource regions. The creation of Capital régional et coopératif Desjardins will draw additional savings from the population for investment in the resource regions.

Moreover, the establishment of Capital régional et coopératif Desjardins will marshal funds for use, in part, to finance the investments of cooperatives, either through increased capitalization or the granting of loans to cooperatives.

▪ ***Creation of Capital régional et coopératif Desjardins***

The Québec government has decided to support the initiative of Mouvement Desjardins to establish Capital régional et coopératif Desjardins and ensure that this new fund will give priority to funding businesses and cooperatives in the resource regions.

- Capital régional et coopératif Desjardins will be authorized to solicit members of caisses populaires and other private investors of Québec for capital to which a special tax incentive applies: investors will be entitled to a non-refundable tax credit equal to 50% of the amount, up to \$2 500 per year, invested in Capital régional et coopératif Desjardins.
- In return, investors must hold their shares in Capital régional et coopératif Desjardins for a minimum of seven years, after which they may withdraw their investment if they so wish.
- A minimum of 60% of the capital of Capital régional et coopératif Desjardins will be invested in eligible businesses or cooperatives. At least 35 % of this capital, or just over 20% of the total capital, must be invested in the resource regions, or in the territory of Québec as a whole, in the case of cooperatives.

▪ ***A funding mechanism at the service of the resource regions***

The mandate of Capital régional et coopératif Desjardins will be twofold:

- Offer a funding mechanism that fosters the resource regions' economic development.
- Support the cooperative movement by fostering the capitalization of cooperatives operating in the resource regions and in Québec as a whole.

The goal of Capital régional et coopératif Desjardins is to double the share of venture capital invested in the resource regions in relation to the total venture capital invested in Québec as a whole, and to finance a significant share of the future investments of cooperatives. As a result of the fund's creation, the proportion of venture capital invested in the resource regions should be more consistent with the regions' demographic weight.

▪ ***Initial financial assistance to support businesses***

To speed up the creation of the new fund and the development of its activities in the resource regions, Mouvement Desjardins and the Québec government will participate equally in providing Capital régional et coopératif Desjardins with \$10 million in financial support consisting of a non-repayable grant.

This assistance will lead to sector-specific knowledge that will help support cooperatives and businesses during the start-up and development stages.

The contributions from Mouvement Desjardins and the Québec government will be paid in two equal amounts during each of the next two years.

Creation of Capital régional et coopératif Desjardins

Capitalization

- Issuance of capital stock to individuals who become investors.
- Maximum capital: \$1.5 billion over 10 years.
- Maximum increase in capital per year: \$150 million.

Tax benefit

- 50% non-refundable tax credit applicable to personal income tax in Québec.
 - Maximum contribution per year: \$2 500 dollars.
- Shares must be held for seven years.
- No additional tax credit may be claimed once an investor has bought back his shares.
- Contribution not eligible for the RRSP deduction.

Application of funds

- A minimum of 60% of the capital must be invested in eligible Québec businesses or cooperatives.
- Of this 60%:
 - at least 35% must be invested in businesses in the resource regions or Québec cooperatives;
 - no more than 65% must be invested in eligible businesses in the other regions.
- The remaining capital – maximum of 40% – may be invested in any secure investment.

Eligible businesses and cooperatives

- Eligible businesses:
 - Québec businesses with less than \$50 million in assets or net equity of no more than \$20 million.
- Eligible cooperatives:
 - Cooperatives within the meaning of the *Cooperatives Act*, including businesses they control.

■ *Improvement of the Cooperative Investment Plan*

Created in 1985, the Cooperative Investment Plan (CIP) entitles members or workers of an eligible cooperative to a deduction in respect of the acquisition cost of a unit acquired from the cooperative.

To round out the support provided for the financing of cooperatives, the Québec government has decided to improve the CIP by raising the maximum deduction that may be claimed for a given taxation year from 10% to 30% of the individual's total income for the year. This measure will improve the financing and capitalization of cooperatives by encouraging members and workers to invest in them. This measure will have a financial impact for the government of \$2 million over a full year.

<i>Cooperative Investment Plan</i>				
Eligible cooperatives	Eligible individuals	Adjusted acquisition cost	Maximum deduction in relation to total income	Eligible regions
■ Work cooperatives	■ Workers of a small or medium-size cooperative	→ 150%	■ Before the Budget: 10% of income	All of Québec
■ Cooperatives at least 90% of whose activities consist of manufacturing, processing or agricultural activities	■ Workers of another cooperative*	→ 125%	■ After the budget: 30% of income	
■ Cooperatives at least 90% of whose activities consist in supplying goods or services that enable the persons who do business with them to earn business or property income	■ Members of a small or medium-size cooperative	→ 125%		
	■ Non-working members	→ 100%		

* Having adhered to a worker investment program.

8.2.5 Support for the financing of leasehold improvements to industrial buildings

SMEs established in the resource regions have a hard time finding suitable industrial space. Developers are not inclined to carry out real estate projects or make leasehold improvements for SMEs, since their longevity is not always assured. Furthermore, real estate developers must contribute between 30% and 40% of the funding for their projects, which is substantial.

To redress this situation, the government will make it possible for Garantie Québec to grant real estate developers a guarantee of reimbursement of the net losses incurred on rent as a result of non-payment by an eligible business or the bankruptcy of lessees. The guarantee will cover the financing of leasehold improvements and, as needed, the cost of the basic rent for new buildings only. The initial guarantee may not exceed 75% of the net loss to be incurred, and will be effective over a flexible period not exceeding 50% of the term of the lease, up to five years.

This measure is also aimed at certain businesses that wish to set up office in a Carrefours de la nouvelle économie (CNE) in a resource region and are experiencing similar difficulties in finding suitable industrial space. Garantie Québec may offer these businesses a guarantee of reimbursement not exceeding 75% of the net loss on a loan contracted to finance leasehold improvements.

8.2.6 Assistance program for waste management businesses

In keeping with the *Quebec Action Plan on Waste Management 1998-2008*, the government is pursuing its objective of protecting the environment through various measures targeting reclamation of 65% of recoverable residual materials annually by 2008.

The assistance program for waste management businesses aims to foster the participation of businesses in achieving the recovery targets under the action plan. To that end, the program offers financial support for the planning, creation, development and consolidation of businesses involved in the recovery, reclamation, reuse or resale of residual materials. It also encourages the expansion of existing businesses through the development of new initiatives or niches.

This program, which is administered by the ministère de l'Environnement, has been a resounding success. In increasing the program envelope, the government is contributing to the growth of this vital sector of the Québec economy by enabling the recovery and reclamation of residual materials.

***Additional measures to support
entrepreneurship and project financing***

In addition to the general means put forward, the government is allocating a total of \$15 million to the resource regions for special measures adapted to region-specific needs. The details of these measures will be presented in the weeks following the tabling of the **2001-2002 Budget Speech**.

Facilitating financing of SMEs and the creation of businesses

Summary of measures

Objective

To provide the resource regions with tools that are better adapted to their needs

Highlights

— **Measures to support entrepreneurship**

- Bolstering the capacity for action of the CLDs
- Regional investment funds for women's entrepreneurship
- Innovation and competitiveness
- Business retention and expansion
- Hiring of young graduates

— **More suitable funding mechanisms**

- Economic project support program (PSPE)
- Financing of SMEs in the regions
- Cyclically adjusted working capital assistance program for technology-intensive businesses
- Capital régional et coopératif Desjardins
- Financing of leasehold improvements to industrial buildings
- Assistance program for waste management businesses

Other measures**Support for the evaluation of regional statistical requirements**

To more effectively monitor the regions' economic situation and make it easier to track progress in implementing the measures contained in the resource regions economic development strategy, the ministère des Finances, notably in conjunction with the Institut de la statistique du Québec (ISQ), will be evaluating regional data needs and sources. This is the first step toward establishing exactly the type of statistics needed to monitoring regional economic activity.

Additional measures

In addition, the government is allocating a total of \$19 million to the resource regions for special measures adapted to region-specific needs. The details of these measures will be presented in the weeks following the tabling of the **2001-2002 Budget Speech**.

Conclusion

CONCLUSION

The **2001-2002 Budget Speech** gives the government an opportunity to initiate major action to strengthen and accelerate the economic development of the resource regions. To that end, the government uses the tax and budgetary tools at its disposal, and mobilizes major resources. It will inject nearly \$800 million over the next three years, whereas several of the measures will apply over a longer period.

This action will have a major impact on economic growth and employment. It has been designed to result rapidly in other investments by different economic players.

The resource region economic development strategy has ambitious objectives. It is to increase the value-added of the economy, accelerate the economy's diversification, ensure the growth of the resource sector and provide the regions with development tools geared to their needs. The means mobilized are in keeping with these focuses.

The actions announced in the **2001-2002 Budget** will be implemented in close collaboration with each of the regions concerned. It is now the critical players in these regions that are being called upon to act. The government is placing at their disposal significant means with which to reduce the disparity in unemployment separating their regions from the rest of Québec. It is now up to the various economic stakeholders in the regions to make the most of the initiatives.

Appendices

Appendix 1

*Tax measures
introduced
previously for the
regions*

APPENDIX 1 – TAX MEASURES INTRODUCED PREVIOUSLY FOR THE REGIONS

Three tax measures were introduced for the regions over the last few years:

- in March 1999, the government created the Carrefours de la nouvelle économie (CNEs);
- in March 2000, a refundable tax credit was introduced for the Vallée de l'aluminium;
- in November 2000, a refundable tax credit was introduced for Gaspésie-Îles-de-la-Madeleine and a number of Québec's maritime regions.

Details concerning the CNEs are given below. The two other measures, which are improved in the **2001-2002 Budget**, were examined in the presentation of the actions introduced in the framework of this Budget.

Carrefours de la nouvelle économie

Application in the regions of tax measures to promote the new economy

In March 1999, the Minister of Finance announced the creation of CNEs in Québec regions that did not have information technology development centres (CDTIs)

It was a question, for the government, of extended to all Québec regions, the tax measures designed to promote the creation and development of businesses in the new economy. These measures, which were applied at designated sites, made it possible to set up the Cité du multimédia in Montréal and a number of CDTIs.

Similar to the initiatives already taken to promote the new economy, the measure was aimed at:

- encouraging the creation and growth of businesses in the new economy;
- fostering the creation of technology centres that made it possible to maximize synergies and collaboration;
- ensuring that these businesses moved into buildings adapted to the new technologies.

▪ ***Terms and conditions***

As with the CDTIs, the CNEs are groups of businesses operating in a single building. Companies conducting their activities in such a building benefit from a refundable tax credit calculated on salary expenses.

- CNEs offer tax benefits similar to those afforded by the other tax measures applicable to businesses in the new economy, as regards the assistance provided for salaries. Businesses in a CNE-designated building can claim a refundable tax credit equal to 40% of the amount of salaries paid to eligible employees. The level of tax assistance may not exceed \$15 000 per employee on an annual basis.
- The assistance is available until December 31, 2010.
- In addition to information and communications technologies, the CNE concept extends to new technologies of general application that have a developmental effect on economic activity as a whole. The sectors involved are information and communications technologies, production technologies, biotechnologies, materials technologies, and scientific and technological services.
- The business must obtain an eligibility certificate.
- The CNE concept is flexible in that a region may set up its CNE in more than one municipality.
- In implementing the measure, the Québec government ensured that the CNEs were set up in close collaboration with the stakeholders involved in each of the regions. In all the regions, advisory committees were set up, composed of representatives of the business community and academic institutions, the ministère des Régions, the Conseil régional de développement and the ministère de l'Industrie et du Commerce.

Initially under the direct responsibility of the ministère des Finances, the administration of this measure was entrusted to Investissement Québec on April 1, 2000.

Carrefours de la nouvelle économie			
Rate of the tax credit	Eligible activity	Eligible regions	Effective date
<ul style="list-style-type: none"> ▪ 40% of salaries, maximum of \$15 000 per employee on an annual basis 	<ul style="list-style-type: none"> ▪ Information and communications technologies ▪ Production technologies ▪ Biotechnologies ▪ Materials technologies ▪ Scientific and technological services 	<ul style="list-style-type: none"> ▪ All of Québec 	<ul style="list-style-type: none"> ▪ Until December 31, 2010

Encouraging results

The first CNE was designated in July 1999. Québec now has 40 or so CNEs, just over half of which are located in the resource regions.

In the Budget Speech of March 1999, the CNEs located in the resource regions were granted a surface area of 22 000 m², which was subsequently increased to just over 33 000 m², i.e. more than 40% of the surface area allocated for the whole of Québec.

To date, 48 businesses have decided to set up operations in the CNEs in the resource regions, resulting in the creation of over 1 000 jobs in the knowledge-based economy.

TABLE A.1
CNEs IN THE RESOURCE REGIONS

	Authorized surface area		Economic activity ¹	
	March 1999 (m ²)	Now (m ²)	Number of businesses	Number of jobs ²
CNEs in the seven resource regions	22 000	33 100	48	1 049
Resource region	City or town		Surface area (m ²)	
Bas-Saint-Laurent	Rimouski		7 650	
	Rivière-du-Loup		650	
	La Pocatière		650	
	Matane		650	
Saguenay–Lac-Saint-Jean	Jonquière		1 000	
	Alma		1 000	
	Chicoutimi		2 500	
	La Baie		500	
	Saint-Félicien		500	
Abitibi-Témiscamingue	Amos		1 000	
	Rouyn-Noranda		1 000	
	Cities or towns to be designated		1 000	
Côte-Nord	Baie-Comeau		500	
	Pointe-aux-Outardes		300	
	Sept-Îles		500	
	Cities or towns to be designated		1 700	
Nord-du-Québec	Cities or towns to be designated		3 000	
Gaspésie–Îles-de-la-Madeleine	Bonaventure		750	
	Gaspé		750	
	Cap-aux-Meules		750	
	Cities or towns to be designated		750	
Mauricie	Trois-Rivières		4 000	
	Grand-Mère		2 000	
Total			33 100	

1 Situation as at March 13, 2001.

2 Estimate of the number of current jobs or of jobs to be created in the next three years, according to the firms' business plans.

Appendix 2

Financial impact of budgetary measures

APPENDIX 2 – FINANCIAL IMPACT OF BUDGETARY MEASURES

TABLE A.2
FINANCIAL IMPACT OF BUDGETARY MEASURES
(in millions of dollars)

	2000- 2001	2001- 2002	2002- 2003	2003- 2004	Total
Increasing the value-added and accelerating the diversification of the economy	6.3	34.2	63.8	37.6	141.8
Support for the processing and enhancement of farm products in the regions	–	1.9	1.9	1.9	5.7
Modernization of local slaughterhouses	–	1.6	1.8	0.5	3.9
Secondary and tertiary wood processing brigade	–	0.7	0.7	0.7	2.1
Support for the diversification of regional agriculture	–	1.4	1.4	1.4	4.1
Outfitting operations consolidation plan	–	2.0	4.0	–	6.0
Forêt-Faune program	–	2.0	4.0	–	6.0
Faune et Parcs program for controlled zones	–	1.0	2.0	–	3.0
Enhancement work in wildlife sanctuaries	–	1.6	1.7	–	3.3
Specific tourism agreements	–	4.0	7.0	7.0	18.0
Targeted measures to accelerate the development of niches of excellence	6.3	9.3	15.1	12.9	43.6
Support fund for the development of niches of excellence	–	4.7	16.8	7.4	28.8
Additional measures to accelerate the diversification of the economy	–	4.2	7.4	5.7	17.3
Ensuring the growth of the resources sector	28.0	55.0	56.4	50.4	189.8
Forest resource development program	–	32.5	32.5	32.5	97.5
Forest job creation program	22.0	4.0	–	–	26.0
Mining exploration diversification fund	6.0	–	10.0	10.0	26.0
Support for junior exploration companies in difficulty	–	5.0	–	–	5.0
Financial support for mining development	–	3.0	6.0	–	9.0
Financial assistance for mining exploration	–	6.0	6.0	6.0	18.0
Financial assistance for technical and economic studies, and for technological innovation	–	1.0	1.0	1.0	3.0
Modernization of fishing boats	–	0.8	0.7	0.7	2.2
Additional measures to support natural resource development	–	2.7	0.2	0.2	3.1

	2000- 2001	2001- 2002	2002- 2003	2003- 2004	Total
Facilitating the financing of SMEs and the creation of businesses	5.0	31.0	40.1	31.4	107.5
Bolster the economic action of the CLDs	–	7.2	7.2	7.2	21.6
Regional investment funds for women's entrepreneurship	–	1.6	1.6	1.6	4.7
Innovation and competitiveness	–	3.6	3.9	3.8	11.3
Business retention and expansion	–	1.3	1.8	0.4	3.4
Hiring of young graduates	–	1.7	0.8	–	2.5
Economic project support program (PSPE)	–	3.5	10.5	7.0	21.0
Financing of SMEs in the regions	–	1.8	1.8	1.8	5.4
Cyclically adjusted working capital assistance program for technology-intensive businesses	–	1.8	1.8	1.8	5.4
Capital régional et coopératif Desjardins	–	2.5	2.5	–	5.0
Support for financing of leasehold improvements to industrial buildings	–	3.0	3.0	3.0	9.0
Assistance program for waste management businesses	–	–	1.6	1.6	3.2
Additional measures to support entrepreneurship and project financing	5.0	3.1	3.6	3.3	15.0
Miscellaneous measures	1.0	8.9	6.2	5.9	22.0
Support for the evaluation of regional statistical needs	–	1.0	1.0	1.0	3.0
Implementation of the strategy by the ministère des Régions	–	0.7	0.7	0.7	2.1
Other additional measures	1.0	7.2	4.5	4.2	16.9
GRAND TOTAL	40.3	129.0	166.5	125.3	461.1

Note: The sum of the amounts may not correspond to the total, because of rounding-off.

Appendix 3

Financial impact of tax measures

APPENDIX 3 – FINANCIAL IMPACT OF TAX MEASURES

TABLE A.3
FINANCIAL IMPACT OF TAX MEASURES
(in millions of dollars)

	2000- 2001	2001- 2002	2002- 2003	2003- 2004	Total
Increasing the value-added and accelerating the diversification of the economy	–	48.5	72.8	90.7	212.0
Zero tax for manufacturing SMEs	–	41.3	52.2	53.7	147.2
Tax credit for processing activities	–	7.2	20.6	37.0	64.8
Ensuring the growth of the resource sector	–	15.0	28.0	34.0	77.0
Tax credit for mining exploration businesses	–	15.0	28.0	34.0	77.0
Facilitating the financing of SMEs and the creation of businesses	–	4.0	17.0	17.0	38.0
Capital régional et coopératif Desjardins ¹	–	2.0	15.0	15.0	32.0
Improvement of the cooperative investment plan	–	2.0	2.0	2.0	6.0
GRAND TOTAL	–	67.5	117.8	141.7	327.0

¹ Share attributable to the resource regions.

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