



ACTION

The Government's Action Plan and
Economic Policy

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Economic Policy**

2002 › 2003 BUDGET

Finances

Québec 

Foreword by the Deputy Prime Minister and Minister of State of the Economy and Finance

The events of September 11, 2001 have marked a new stage—a painful one—in the history of humanity. They have also, from an economic standpoint, resulted in a whole series of disruptions, the precise magnitude of which is still difficult to gauge. The United States, the principal power targeted, is also where the greatest impact has been felt in terms of the growth of activities. The attacks carried out on its soil magnified the risks of an economic slowdown, particularly by undermining the confidence of consumers.

Québec is experiencing directly the repercussions of these grave problems. Our economic ties with the United States have never been closer, and all manufacturing businesses are directly affected to a greater or lesser extent by the threats weighing on our exports. Several of our most dynamic sectors, such as aerospace, have already been shaken by the impact of the events of September 11. Investors themselves wonder about the current and foreseeable economic situation.

*The Québec government had to react rapidly to that shock, which no one could anticipate. The Québec economy is strong and diversified, but businesses, like individuals, must regain all the confidence that has motivated them until now, and thereby ensure a return to solid growth. The government can play a strategic role in restoring confidence, and it is for this reason that the **2002-2003 Budget Speech** is much earlier than anticipated, making it possible for a whole series of new initiatives to be implemented.*

These initiatives are three-pronged: the government is injecting funds for the benefit of consumers, by providing specific support for people with low incomes. It is accelerating major public-sector investments. It is helping small and medium-sized enterprises to navigate the current difficulties, and it is using the means at its disposal to stimulate business investment. Taken as a whole, this is a major action plan, implemented to bolster economic activity and jobs.

The action plan does not require only new money and public funds. It includes spending that was already earmarked but is being accelerated, initiatives of government corporations and private investment, concerning which certain targeted measures will produce a true leverage effect. Its

implementation does not affect the balanced budget policy, which we must maintain.

The initiatives undertaken are perfectly consistent with the government's general economic policy, which it has applied successfully since the mid-1990s. Since then, the Québec economy has been profoundly transformed, and in the right direction. The standard of living of Quebecers has improved noticeably, the unemployment rate has plummeted, while our businesses have been enjoying an enviable place on external markets. The very structure of the Québec economy has changed, with the significant breakthroughs made by advanced-knowledge sectors, which have acquired a reputation internationally.

*The **2002-2003 Budget Speech** provides an opportunity to review the government's economic policy, to assess it and to define its next stages.*

The modernization effort undertaken must be continued and stepped up. The achievement by Quebecers of the collective objectives they hold dear depends on the strengthening of their economy. It is through a strong and prosperous economy that everyone who can work will have a job, that the wealth redistribution programs among the most generous in North America will be preserved and that the public services to which we are all so deeply attached will be funded.

*While it is a response to the delicate economic situation we now find ourselves in, the action plan implemented by the government constitutes a new stage in building a more prosperous and productive Québec. With the **2002-2003 Budget Speech**, the government is mobilizing the means that Québec needs to preserve and improve the status it has acquired in an increasingly open and competitive world.*

PAULINE MAROIS

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INTRODUCTION

This publication presents and describes the action plan developed by the government as part of the **2002-2003 Budget Speech** with a view to bolstering economic activity, given the impact of the events of September 11, 2001. The action plan and the initiatives it contains are then put into perspective in order to link them with Québec's economic performance and explain the extent to which they are incorporated into the economic policy being implemented. The publication also gives the government an opportunity to emphasize the importance and nature of the resources mobilized to implement the policy.

The publication contains three sections:

- ➡ The first section is devoted to the measures defined by the government to respond to the challenge of the current economic environment.
- ➡ The second section examines the work accomplished to date in modernizing the Québec economy—work begun that must be pursued.
- ➡ The third section sets forth all the financial resources assigned to the implementation of the economic policy. They are quantified and categorized according to the nature of the instruments used.

SECTION 1

RESPONDING TO A CHALLENGING SITUATION

The attacks of September 11, 2001 profoundly changed the outlook for economic growth in Québec and the principal industrialized countries. The economic slowdown, which was perceptible before the events of September 11, expanded and accelerated—first and foremost, in the United States. The Québec economy is directly experiencing the effects of the slowdown, for its economic ties with the United States have never been closer and, in some of the sectors most affected, such as aerospace, Québec is a major player.

The government decided to respond rapidly to this unforeseen economic situation by introducing an action plan aimed, above all, at stimulating investment and helping SMEs navigate the slowdown. The government is stepping up its efforts for the resource regions. It is also defining targeted measures for consumers, of benefit mainly to people with low incomes. The government's overall objective is to maintain the achievements of recent years in terms of standard of living and productivity.

The action plan introduced as part of the **2002-2003 Budget Speech**, which is being tabled five months early for this purpose, focuses on three main elements:

- ➡ The action plan directly targets individuals through the injection of \$400 million for consumers, with a view to boosting their confidence.
- ➡ The public sector is being mobilized. The government is accelerating investments totalling nearly \$3 billion, \$2.5 billion of which are public investments, supplemented by \$500 million in investments by government corporations that are commercial in scope.
- ➡ The government is appealing to businesses through the economic levers it has already introduced to support SMEs and to spark additional investment by the private sector.

1. PROVIDE SUPPORT FOR CONSUMERS

The current economic situation requires that a positive message be sent to consumers. Accordingly, the action plan implemented by the government includes the injection of \$400 million for their benefit, \$75 million of which is for people with low incomes.

This transfer stems from the following four measures:

- ➡ The government is making an additional payment of \$250 million to bolster confidence. The payment will be in the form of an additional \$100 per adult for all beneficiaries of the QST credit. This means was chosen because it could be implemented very rapidly. The \$100 amount will be added to the second payment of the QST credit made, as each year, in December. This measure will benefit 2.5 million consumers.
- ➡ Social assistance benefits for persons with a severely limited capacity for employment will be indexed on January 1, 2002, which means a transfer of \$29 million to these recipients.
- ➡ Social assistance benefits for people who are able to work will also be indexed on January 1, 2002, which will increase them by \$46 million. This is the second increase for these Quebecers in a little over six months.
- ➡ Furthermore, the government is maintaining the indexation of the personal income tax system on January 1, 2002, and raising the indexation rate from 1.8% to 2.7%. This measure, which represents an injection of \$77 million, will benefit all taxpayers.

Full indexation of the personal income tax system

- ➡ In accordance with the commitments made in the *2001-2002 Budget Speech*, the government will index the personal income tax system beginning on January 1, 2002.
- ➡ Because of indexation, all taxpayers will see their tax burden reduced in 2002 by a total of \$232 million.

Several typical cases

The impact of the measures announced in the **2002-2003 Budget Speech**, including the full indexation of the personal income tax system, can be concretely illustrated through a number of typical cases.

- ➡ The disposable income of a couple with two children and two incomes totalling \$35 000 will increase by \$229.
- ➡ The disposable income of a couple 65 years of age or over with a total income of \$35 000 will increase by \$342.
- ➡ The disposable income of a couple with two children and an income of \$35 000 will increase by \$369.
- ➡ The disposable income of a couple that has no children and receives social assistance benefits will increase by \$460.

The impact of the income tax reductions implemented in July 2001

Moreover, bear in mind that the measures announced in the *2001-2002 Budget Speech* and implemented since July 1 are now producing their full effect. For taxpayers, the income tax reduction announced on March 29, 2001 represents an increase in disposable income of \$1 billion for the 2002 calendar year as a whole.

In all, taxpayers will thereby benefit from an increase in disposable income of \$1.6 billion in 2002, because of the personal income tax reduction measures and specific measures of support for people with low incomes, implemented in March 2001 and in the **2002-2003 Budget Speech**.

TABLE 1
Impact of support measures for households –
2001-2002 and 2002-2003 Budget Speeches
(In millions of dollars)

	Increase in disposable income in 2002
2002-2003 Budget	
One-time increase in the QST credit ¹	250
Revision of indexation rate from 1.8% to 2.7%	77
Indexation of social assistance benefits	
– For people who are able to work	46
– For people with severe employment constraints	29
Sub-total: 2002-2003 Budget	402
2001-2002 Budget	
Personal income tax reduction	1 040
Indexation of the personal income tax system in 2002	155
Indexation of social assistance benefits	36
Sub-total: 2001-2002 Budget	1 231
Total	1 633

¹ Amount paid in December 2001.

2. ACCELERATE PUBLIC-SECTOR INVESTMENTS

The second component of the government's action plan consists in accelerating a number of public-sector investments, in order to rapidly spark additional economic activity. These investments not only provide a response to the various needs of Québec society, but they also make it possible to directly support the economy and to create jobs in all Québec regions.

Investments rather than expenditures

Public-sector investments constitute a major instrument at the government's disposal for stimulating the Québec economy without jeopardizing the objective of a zero deficit. The government has chosen investments rather than budgetary expenditures for both economic and financial reasons.

- ➡ From an economic standpoint, public investments have a major leverage effect, which means that each dollar invested will create a volume of activity that is a multiple of the initial investment. In the current situation, this leverage effect is strategic, since it makes it possible to maximize the use of public funds with a view to providing support for the economic situation.
- ➡ From a financial standpoint, the decision to move up investments that were already programmed makes it possible to limit the budgetary impact of this initiative on public finances. Making public investments early has an impact on the government's budget in terms of an additional borrowing burden, but that burden is distributed over time.

Moreover, and in contrast to expenditures, public investments are non-recurrent commitments. Investments moved up therefore do not jeopardize the future budgetary balance.

It should be added that the investments in question meet major needs for the renovation and construction of infrastructure. The decision was made to accelerate public investments because of the situation, but also because it will benefit the Québec community over a long period of time. The government is implementing early useful and necessary projects that would have been implemented a little later.

Type of investments chosen

The investments chosen for the purposes of the action plan can all be made very rapidly. They are for all regions of Québec.

They fall into two categories according to their type:

- ➡ A first series consists of public investments to improve the competitiveness of the Québec economy and its productivity, and to strengthen the main public services. These investments essentially concern the road network, municipal infrastructure, research, health, education, social housing and culture.
- ➡ A second series are not public investments, but depend on the public sector. They will be made by government corporations of commercial scope. These cost-effective investments will, when fully implemented, strengthen the position of these organizations on their markets.

Nearly \$3 billion in public-sector investments

The government is accelerating public investments totalling \$2.5 billion, to which must be added \$500 million from government corporations, for a total of \$3 billion for the public sector as a whole.

The public investments that the government is accelerating are added to the \$7.1 billion in investments already provided for in the government's three year planning for fiscal years 2001-2002 to 2003-2004. Hence, the work carried out during the next three years amounts to \$9.6 billion.

- ➡ The public investment acceleration plan involves projects that will start up very rapidly and will be largely completed by July 2002. A government contribution of just over \$1 billion is set aside for projects in this category.
- ➡ The acceleration plan also includes projects totalling over \$1 billion, whose implementation will require a little more time and will be spread over the years 2002, 2003 and 2004. These are strategic investments that must be made rapidly in order to meet priority needs.

The government's action plan gets under way as soon as the **2002-2003 Budget Speech** is tabled. The main investments to be made early are given in the following table:

TABLE 2
Public-sector investment acceleration plan –
Public investments and investments by government corporations
of commercial scope
(In millions of dollars)

	Investments
Public investments	
- Health and social services	500
- Education	400
- Transport (road network)	400
- Research, science and technology	100
- Québec-Municipalités infrastructure	350
- Social housing	457
- Culture	100
- Family and child welfare	50
- Information technologies	100
Sub-total: public investments	2 457
Investments by government corporations of commercial scope	500
Total	2 957

3. SPARK INVESTMENT BY THE PRIVATE SECTOR

As part of its economic policy, the government has introduced a number of instruments to stimulate private investment. These instruments have proven their effectiveness: in recent years, Québec has experienced substantial growth in business investment, which has been supported by the government.

The action plan announced as part of the **2002-2003 Budget Speech** uses these different instruments to prompt the private sector to maintain and increase its investments in the Québec economy, with a view to maintaining jobs and economic activity. The objective of the government's initiatives is to boost the confidence of businesses and to create a climate conducive to decisions to invest, despite the uncertainty stemming from the events of September 11.

The instruments used by the government are of four types:

- ➡ The government is giving immediate assistance to SMEs by providing them with additional liquidity and facilitating their financing.
- ➡ The government is stimulating investment by businesses by improving their tax treatment and the financing of large-scale projects.
- ➡ The government is expanding and accelerating its efforts in regard to the resource regions by strengthening the existing assistance provided for investments.
- ➡ The government is lending its support for investments in two specific sectors of activity: agri-food and the social economy.

IMMEDIATE ASSISTANCE FOR SMEs

The current situation is directly affecting SMEs, which may face liquidity problems. Furthermore, their access to financing has been made even more difficult.

Support for SME working capital

In the days following the events of September 11, the Québec government gave SMEs initial assistance in the form of an additional six-month period in which to pay income tax instalments and instalments of the tax on capital that were to be remitted in October. That measure provided SMEs with additional liquidity of \$175 million.

The **2002-2003 Budget Speech** announces that that measure will also apply to instalments to be remitted in November and December. The businesses concerned will thereby benefit from a total of \$525 million in assistance for their working capital.

In addition, SMEs will no longer be obliged to remit source deductions every month if their average monthly remittance does not exceed \$1 000. They will be allowed to make remittances quarterly, which will improve their cash flow while relieving their administrative burden. It is estimated that annually there are more than 800 000 forms that small employers will no longer have to file.

La Financière du Québec: a powerful tool for SMEs

SMEs are already facing a tighter supply of financing on the market. The problem mainly affects young businesses, businesses in the regions and businesses in the new economy.

The government is setting up La Financière du Québec to help SMEs find financing. This new organization is part of Investissement Québec, and it replaces Garantie Québec.

The creation of La Financière du Québec will be accompanied by a complete re-engineering of Investissement Québec's current supply of financing for SMEs, in order to provide them with customized financial solutions and to adapt rapidly to their changing financial needs.

La Financière du Québec will serve as an adjunct to financial institutions, while respecting their normal fields of intervention.

- ➡ La Financière du Québec will be able to extend loans to businesses. It will no longer essentially provide loan loss guarantees, as Garantie Québec did.
- ➡ La Financière du Québec will have the important mandate of providing assistance for the working capital of businesses facing temporary difficulties. The assistance may take the form of a loan or a loan guarantee not exceeding 80% of the net loss.

La Financière du Québec will intervene in those ways in order to maintain the activities and jobs of businesses that have liquidity problems owing to the situation—the impact of the events of September 11, for example. The objective is to grant a total of \$100 million in loans or loan guarantees by March 31, 2003.

- ➡ La Financière du Québec will use innovative financing formulas, established on a business basis, in order to respond in a flexible and versatile manner to the increasingly diversified needs of SMEs. In particular, the corporation will intervene to provide businesses with “quasi-equity” financing.

“Quasi-equity” financing

“Quasi-equity” financing is a hybrid form of financing, between venture capital financing and the traditional financing available from financial institutions.

“Quasi-equity” financing consists essentially of a loan—a risk-sharing loan, a subordinated loan or a venture loan—but it has certain features akin to venture capital, such as a moratorium on the repayment of principal or a risk premium.

- ➡ La Financière du Québec will be able to lend immediately to fledgling businesses that are unable to finance themselves because of the economic situation. A \$25-million loan envelope has been set aside for that purpose, until March 31, 2003.
- ➡ La Financière du Québec can provide cooperatives and businesses in the social economy with capitalization loans and other quasi-equity financial products. A \$15-million financial intervention envelope has been placed at the disposal of these businesses. In addition, partial interest payment holidays may be granted, up to a maximum of \$1.2 million. These envelopes will be managed jointly with the business clientele contemplated by this measure.

Because of its expertise, La Financière du Québec will be responsible for managing the FAIRE program.¹

La Financière du Québec will be operational very quickly, since it is replacing an existing organization, Garantie Québec.

Thanks to its new opportunities for intervention, La Financière du Québec can actually play the role of an investment bank for SMEs, as an adjunct to commercial financial institutions.

1 FAIRE is an acronym for the Fonds pour l'accroissement de l'investissement privé et la relance de l'emploi, the Private Investment and Job Creation Promotion Fund.

STIMULATING PRIVATE INVESTMENT

Québec has gradually introduced a broad range of programs to support businesses in their investment efforts, while encouraging foreign businesses to move to Québec.

These programs stem from a basic observation: businesses constitute, through their investments, the principal engine for job and wealth creation. By encouraging private investment, Québec has chosen the most effective and sustainable way to modernize its economy and enhance its competitiveness.

In the current setting, where investment decisions may be jeopardized by the waning confidence of decision-makers, the government has chosen to intervene in two ways as a priority:

- ➡ The government is introducing major tax relief for businesses, in order to preserve the competitiveness of the Québec tax system.
- ➡ The government is improving the FAIRE program, in order to accelerate the start-up of large-scale projects.

By January 1, 2003, 60% of businesses will no longer pay the tax on capital

The competitiveness of the tax system is one of the decisive factors that businesses consider in making their investment decisions. It is not the only factor considered, but it is a major one in the final decision: the size and nature of the tax burden to which businesses are subject determine in part the relative competitiveness of the economic environment in which the business plans to invest.

At the current time, the tax system for businesses established in Québec is competitive over all, particularly because of the rate of taxation of corporate income, the refund of the sales tax paid on inputs under the QST system and the reduced property taxes levied.

However, the current tax system poses a number of major problems:

- ➡ Fixed charges are considerable. The tax on capital in Québec is the highest in North America, and the payroll tax burden is the heaviest among Canadian provinces.
- ➡ The overall competitiveness of the system is greatly threatened. The main industrialized countries have embarked on a major shift toward reducing business taxes. The same phenomenon is observed in Ontario, Alberta and British Columbia.

In the current circumstances, that threat affects business confidence. Furthermore, the burden of fixed charges, particularly the tax on capital, has already been detrimental: some businesses may be prompted to move their activities, transferring part of their tax base outside Québec. Québec's SMEs suffer from an even greater disparity, as a number of jurisdictions already exempt their competitors from all fixed charges.

The action plan that the government has introduced provides an opportunity to respond to that situation, and to send a clear message concerning business taxation. The government is attacking head on the problem of the heavy fixed charge burden of businesses, by taking two major decisions.

Reduction of over 50% in the tax on capital

- ➡ The government is embarking on a plan to reduce the tax on capital. The general rate of that tax will be gradually cut by more than half, from 0.64% to 0.30%, between now and 2007. The first reduction will come into effect on January 1, 2003.

A reduction of the same magnitude and according to the same schedule will be applied to the rate for financial institutions, which has been twice as high as the general rate, since their tax base is more limited than that of other corporations.

TABLE 3
Rates of the tax on capital in Québec
(In percent)

	Current	2003	2004	2005	2006	2007
General	0.64	0.60	0.525	0.45	0.375	0.30
Financial institutions	1.28	1.20	1.05	0.90	0.75	0.60

Note: The rate reduction will come into effect on January 1 of each year.

\$1-million exemption to benefit SMEs

- ➡ The government is going a step further in regard to SMEs, by gradually exempting them by January 2006 from the tax on capital on the first \$1 million in paid-up capital. Through this measure, nearly 60% of all Québec businesses will no longer pay the tax on capital as of January 1, 2003. When the measure is fully implemented, nearly 210 000 Québec SMEs, or 75% of all businesses established in Québec, will no longer pay the tax on capital.
- ➡ During the transition period, i.e. 2003 to 2005, only SMEs will have access to the exemption. In 2006, the exemption will be accessible to all Québec businesses.

TABLE 4
Exemption regarding the tax on capital,
and number of fully exempt businesses

	Currently	2003	2004	2005	2006
Exemption (in dollars) ¹	-	250 000	500 000	750 000	1 000 000
Number of exempt businesses	-	162 000	198 000	203 000	210 000
As a percentage of total businesses	-	58.1	67.8	72.6	75.1

1 For the years 2003 to 2005, a complete exemption will apply to SMEs whose paid-up capital is below these amounts. The value of the exemption will be gradually reduced for SMEs whose paid-up capital is above the exemption and below \$1 million in 2003, \$2 million in 2004 and \$3 million in 2005.

Source: Ministère des Finances du Québec estimate.

Significant relief, with an immediate impact

In all, the relief provided by the government in regard to the tax on capital is significant, and it will have an immediate impact.

- ➡ There is already a two-year tax holiday in regard to the tax on capital, for businesses that invest particularly in manufacturing or processing equipment—including the buildings used in such activities—and computer equipment. The combination of that measure and future relief will especially stimulate new investment.
- ➡ For all investments, the relief in regard to the tax on capital means an immediate reduction in anticipated costs, since the investor will discount the tax cuts announced.
- ➡ According to the tax reduction schedule, all businesses with a paid-up capital of \$1 million or less will be fully exempt from the tax on capital as of 2006.
- ➡ The reduction is also significant for other businesses. In 2007, a business with paid-up capital of \$2 million will benefit from a reduction in the tax on capital of 77%, compared with what it now pays, if one factors in the exemption and the rate reduction.

TABLE 5
Illustration of the reduction in the tax on capital, 2003 to 2007

Paid-up capital	2003	2004	2005	2006	2007
\$250 000 or less	-100%	-100%	-100%	-100%	-100%
\$500 000	-38%	-100%	-100%	-100%	-100%
\$750 000	-17%	-64%	-100%	-100%	-100%
\$1 000 000	-6%	-45%	-77%	-100%	-100%
\$2 000 000	-6%	-18%	-41%	-71%	-77%
\$10 000 000	-6%	-18%	-30%	-41%	-58%

Fiscal measures in the 2002-2003 Budget Speech for Québec's SMEs***More than 50% reduction in the tax on capital***

- ➡ The general rate will be cut by more than half, from 0.64% to 0.30%, between now and 2007.
- ➡ An exemption will be gradually implemented for the first \$1 million in paid-up capital.
- ➡ When the measure is fully implemented, nearly 210 000 SMEs, i.e. 75% of all businesses operating in Québec, will no longer pay the tax on capital.

Deferment of tax instalments

- ➡ The government has already announced a no-interest deferment of October 2001 tax instalments. These instalments may be paid in April 2002.
- ➡ The deferment will also apply to instalments due for November and December 2001, which may be paid in May and June 2002.
- ➡ This will provide SMEs with additional liquidity of \$525 million, i.e. substantial assistance for their working capital.

Reduction in the number of payments

- ➡ Employers whose average monthly source deduction remittances do not exceed \$1 000 may now make these remittances quarterly.
- ➡ This will enable the employers contemplated to increase their short-term liquidity.
- ➡ The measure will dispense more than 100 000 employers from the obligation to make eight payments a year, and will make it possible for them to submit over 800 000 fewer forms.

Resource regions

- ➡ Refundable tax credits for the processing of various resources are improved: the calculation of the tax credit related to new jobs is made more flexible in order to take into consideration the current economic situation, and the formula for determining tax credits is changed so that businesses receive this tax assistance for 10% of their existing jobs for two years.
- ➡ The scope of the 10-year tax holiday for manufacturing SMEs in remote regions is broadened: the size of businesses that can take advantage of the tax holiday is doubled.

Improvement of tax measures for the new economy

The action plan adopted to bolster the confidence of investors includes a specific component for the new economy.

Even before September 11, the situation in sectors of the new economy, particularly businesses involved in e-commerce, had deteriorated because of the worldwide slowdown and particular problems stemming from the decline in their stock market valuation.

The government is taking a number of steps to ensure that the achievements of recent years are not in jeopardy: Québec had succeeded in carving out a significant place for itself internationally in the new economy, and that place must be preserved.

Extension of existing programs

The action plan introduced by the government provides for the extension of the various fiscal programs for the new economy. The date on which the programs end is extended from December 31, 2010 to December 31, 2013, in order to preserve their incentives.

The duration of the program for a given business is still 10 years. Businesses can benefit from the program in its entirety provided they decide to set up shop in the designated sites by January 1, 2004, whereas, beginning on January 1, 2001, tax benefits were no longer applicable to new investments for the full 10-year period. The measure should therefore have an immediate impact on investment in the new economy.

The measure concerns all regions of Québec, and applies particularly to the Cité du multimédia in Montréal, the Centre national des nouvelles technologies de Québec (CNNTQ), information technology development centres (CDTIs) and new economy centres (CNEs).

Increase in the floor space of new economy centres (CNEs)

Measures regarding CNEs were introduced in the *1999-2000 Budget Speech*. At the present time, the floor space allotted to the various Québec regions under this program totals 100 000 m².

Given the appeal of CNEs in terms of the development of the various Québec regions, the government is increasing the available floor space to 125 000 m². Investissement Québec will continue to manage the allocation of the new floor space and will give priority to expanding and consolidating the CNEs currently set up in the various Québec regions, rather than to increasing their number.

A revision of the tax incentives for e-commerce

In May 2000, the government introduced the E-Commerce Place program with a view to positioning Montréal in a particularly promising sector of activity. Government support for businesses specializing in e-commerce is more relevant than ever: even though the economic slowdown has made businesses specializing in this type of activity more vulnerable, the deployment of this new form of transaction is inevitable.

However, the existing program must be adjusted so as to respond to the current situation, and take better account of the realities of the real-estate market in downtown Montréal. The government is therefore making the following changes:

- ➡ First, a new tax credit is introduced for the territory of downtown Montréal.
 - This territory, surrounding E-Commerce Place, will contain a total of 186 000 m² of new floor space for businesses that want to take advantage of the new measure.
 - Businesses that move into the perimeter formed by the river and Sherbrooke, Atwater and Du Havre streets can avail themselves of a tax credit of 35% calculated on the salaries of new employees.
 - The tax credit will apply to labour expenditures directly associated with e-business and to the operation of a customer-contact centre. The new tax credit will have a maximum duration of five years.
 - The owners of immovables within this perimeter will be able to take advantage of a number of financial assistance programs set up by the City of Montréal to encourage the renovation and revitalization of industrial immovables and buildings.

Furthermore, the new tax credit will also be available to businesses established in the perimeter of the Centre national des nouvelles technologies de Québec (CNNTQ).

- ➡ Second, the size of the project initially planned for E-Commerce Place is significantly reduced; the maximum floor space of E-Commerce Place is cut from nearly 290 000 m² to just under 140 000 m².

The tax incentive under the E-Commerce Place program is otherwise improved, in order to ensure consistency with the new tax credit applicable to the downtown area as a whole. The tax credit is increased from 25% to 35%, and the maximum tax credit per job rises from \$10 000 to \$12 500.

These adjustments to the E-Commerce Place program mean no additional cost for public finances: creation of the new tax credit and improvement of the existing program will be funded through savings realized by reducing the floor space of the site designated for E-Commerce Place.

Furthermore, these adjustments correspond to the government's objectives in introducing its action plan to deal with the current economic conditions: the new formula is more flexible for businesses.

TABLE 6
Summary table of improvements in tax measures for businesses in the new economy

Measure	Objective	Change
Extension of existing programs until 2013	Maintain the appeal and the incentive with a view to ensuring the success of the measures	<p>Duration: 10 years for corporations that sign a lease before January 1, 2004</p> <p>The measures are:</p> <ul style="list-style-type: none"> ▪ Cité du multimédia ▪ Information technology development centres (CDTIs) ▪ New economy centres (CNEs) ▪ Centre de développement des biotechnologies de Laval ▪ Centre national des nouvelles technologies de Québec (CNNTQ)
Measure	Objective	Change
New economy centres	Ensure the development of the regions and consolidate existing CNEs	Increase in the rental floor space from 100 000 m ² to 125 000 m ²
Measure	Objective	Parameter
New tax credit for e-business	Stimulate the development of more e-business-related firms	<p>Tax credit rate: 35%</p> <p>Duration: 5 years</p> <p>Assistance calculated according to payroll growth (contemplates new jobs)</p> <p>End of program: December 31, 2013</p> <p>Downtown Montréal: Maximum of 186 000 m²</p> <p>CNNTQ: rental floor space integrated into the current perimeter</p>
Measure	Objective	Change
E-Commerce Place	Adapt the program to the economic situation	<p>Rate of the tax credit: 35%</p> <p>Maximum per job: \$12 500</p> <p>Duration: 10 years for corporations that sign a lease before January 1, 2004</p> <p>End of program: December 31, 2013</p> <p>Reduction in the project's rental floor space from 288 300 m² to 139 500 m²</p>

***Accelerate the start-up of large-scale projects:
improvement of the FAIRE program***

In stimulating private investment, the government is not limiting itself to relieving the tax burden on businesses. It is also improving the FAIRE program in order to spark large-scale projects.

The FAIRE program, administered by Investissement Québec, is the chief budgetary instrument used by the Québec government to encourage major investment projects. The program, which was slated to end on March 31, 2003, particularly made it possible for Québec to compete with other jurisdictions in attracting large-scale investment. In recent years, Québec's performance in terms of private investment is, in fact, partly attributable to the implementation of large-scale private investment projects.

The rapid start-up of major new investments is one response to the current economic situation. The government is using the FAIRE program for that purpose and is improving its terms so that government action is even more effective. Three changes are made to the current program:

- ➡ The envelope for the FAIRE program is increased and its application period is extended until 2004-2005, representing additional financial commitments by the government of \$150 million for the fiscal year under way and of \$200 million for fiscal 2002-2003. Hence, the total envelope for the program is increased to \$400 million for 2001-2002 and to \$300 million for 2002-2003.

TABLE 7
FAIRE program commitment envelope
(In million of dollars)

	2001-2002	2002-2003
Basic envelope	250	100
Increase	150	200
Total envelope	400	300

- ➡ The minimum threshold for investment projects eligible for the program is reduced from \$10 million to \$5 million until March 31, 2003, in order to broaden application possibilities. The minimum threshold for job creation projects will also be reduced from 100 to 50 jobs.
- ➡ The terms of the program are adjusted so that a business qualifying for a 10-year tax holiday for major investment projects can, at the same time, avail itself of the FAIRE program.

The same rule will apply to businesses that receive the tax credits introduced in the *Resource Regions Economic Development Strategy*.

Making budgetary support more consistent with fiscal support will strengthen incentives in measures aimed at major investments. Rules will be developed with a view to maintaining government contributions at reasonable levels.

Expansion of private high technology corporations

- ➡ Growing private high technology firms, particularly those in the biotechnology sector, have difficulty finding sufficient capital to support their development. Their financial needs exceed the capacity of Québec's venture capital companies to intervene. These firms find themselves compelled to move their activities outside Québec or to transfer their ownership to non-Québec interests, in order to market their products.

The government therefore intends to examine the problem of the expansion of private high technology firms, especially those in the biotechnology sector, to ensure that the benefits generated by the government's efforts in encouraging the start-up of these businesses remain in Québec. Innovative financial methods will be examined and, if need be, changes will be made to the FAIRE program.

PURSUING AND STEPPING UP EFFORTS FOR THE BENEFIT OF RESOURCE REGIONS

The *Resource Regions Economic Development Strategy*, introduced in the *2001-2002 Budget Speech*, has substantial means at its disposal: the government mobilized \$800 million for this purpose.

The situation resulting from the events of September 11 has also affected regional economies, justifying improvements to the measures implemented.

The **2002-2003 Budget Speech** includes the following four measures:

- ➡ The 10-year tax holiday for manufacturing SMEs in remote resource regions is broadened, as the size of businesses that can take advantage of the tax holiday is doubled, from \$15 million to \$30 million in paid-up capital. Consideration of activities carried on outside the resource regions is also made more flexible.
- ➡ Changes are made to the refundable tax credits aimed at job creation in processing activities in the resource regions, for Gaspésie and certain maritime regions, and for the Vallée de l'aluminium.
 - Businesses can choose a reference year other than 1999 or 2000, so as not to be penalized by an eventual payroll reduction.
 - The formula for determining the tax credit is temporarily modified, so that businesses can avail themselves of this tax assistance for 10% of their existing jobs. This additional help is aimed at supporting businesses that preserve their jobs, despite the current difficulties.
- ➡ The refundable tax credit for exploration activity is broadened to encompass the cut stone sector, so as to support the diversification of an industry geared toward export markets. This measure should have a direct impact on the level of exploration activities in the Côte-Nord, Gaspésie and Haute-Gatineau regions.

- ➡ The envelope of the Programme de soutien aux projets économiques (PSPE) is increased by \$2.2 million for the year in progress. This program is for investment projects of between \$500 000 and \$2 million. The improvement will provide additional support for the investment projects of businesses in the resource regions and in the 20 less affluent RCMs in the central regions, identified in the *2001-2002 Budget Speech*.
- ➡ SOQUEM will invest \$12 million in the next two years to support mining exploration and development activities. SOQUEM and its partners will thereby carry out additional work worth more than \$20 million in the various Québec regions.

Special support for rural regions

The **2002-2003 Budget Speech** announces accelerated investments specifically for the rural regions.

- ➡ A new program entitled Villages branchés du Québec will connect Québec school boards through a broadband telecommunications network. A budgetary envelope of \$75 million has been set aside for this purpose.
- ➡ Under a village beautification program, work totalling \$36 million will be carried out in the next two years.
- ➡ The government will inject \$16 million into the RénoVillage program, under which \$45 million in work will be performed in the next two years.

Furthermore, the rurality policy will be tabled shortly. A total of \$10 million will be devoted to it.

Modernization of the pulp and paper sector

INNO-PAP, an organization responsible for contributing to pulp and paper plant modernization projects, was given a financial envelope of \$100 million in the *2000-2001 Budget Speech*.

The organization has fully committed the amounts mobilized, which will be used in the coming months to renovate some of the less productive plants in Québec and to preserve the jobs that depend on them in the regions.

To enable INNO-PAP to pursue its mandate and to participate in the investment efforts undertaken, the government is providing it with an additional grant totalling \$30 million. The organization will receive this additional amount by 2004-2005. It confirms the government's support for the pulp and paper industry, while improving the industry's productivity in the medium term, in keeping with the objectives pursued in introducing the action plan set out in the **2002-2003 Budget Speech**.

SUPPORT FOR INVESTMENTS IN THE SOCIAL ECONOMY AND AGRI-FOOD INFRASTRUCTURE

The social economy

The social economy sector in Québec encompasses nearly 5 000 businesses and some 50 000 jobs. The sector contributes to the development of the Québec economy while meeting social needs.

Since the Summit on the Economy and Employment in 1996, more than 15 000 jobs and about 1 000 new social economy businesses have been created.

The **2002-2003 Budget Speech** confirms the government's support for businesses in the social economy. As indicated earlier, new financing opportunities are open to them with the creation of La Financière du Québec in order to meet their capitalization needs.

Three other initiatives have been announced:

- Local development centres (CLDs), which administer the Fonds de développement des entreprises d'économie sociale, will receive additional funding of \$12 million.
- The annual envelope of the financial exemption program for domestic help services is increased from \$32 million to \$36 million. This improvement is in keeping with one of the commitments made in June.
- The Office des personnes handicapées du Québec will receive \$2.9 million a year to fund adapted work centres.

The agri-food industry

Following the *Rendez-vous de mi-parcours* of the Forum sur l'agriculture et l'agroalimentaire québécois, nearly \$200 million was set aside to support the development of the agri-food industry.

Furthermore, the government is providing an additional \$5 million to fund the implementation, in all Québec regions, of quality control systems based on HACCP (Hazard Analysis Critical Control Point Concept for Food Safety) principles.

HACCP standards: quality control in the bio-food industry

HACCP standards are a concept for the analysis of hazards and the control of critical points with a view to ensuring food safety.

These systems are aimed at improving food safety through the introduction of internal controls in businesses in the food production, processing and retail sectors, and the restaurant sector.

