

## SECTION 2

# CONTINUING THE WORK BEGUN

The action plan introduced by the government as part of the **2002-2003 Budget Speech** is aimed at bolstering economic activity and employment in order to overcome the problems resulting from the events of September 11.

The various initiatives that the government is undertaking will also meet the main challenges confronting Québec in ensuring the strength and growth of its economy in the medium term.

In order to clearly identify and gauge these challenges, as well as the progress made in meeting them, it is essential to illustrate briefly the undeniable modernization and strengthening of the Québec economy in recent years.

It will then be possible to discuss two conditions for which an economic policy must lay the groundwork, i.e. the growth of investment and the intensification of research and innovation, which are the requirements for growth and employment. Québec is already well positioned from these two standpoints, and the new initiatives implemented by the government should permit additional strides to be made.

The second section of the publication on the government's action plan and economic policy consists of three parts:

- ➡ The first part describes the modernization and strengthening of the Québec economy, as illustrated by analysing the main indicators of economic activity, and it identifies the factors that determine standard of living and productivity.
- ➡ The second part is devoted to investment growth, an essential condition of increased productivity and therefore of higher standard of living, and to the government initiatives implemented in this regard in recent years.
- ➡ The third part discusses the principal government initiatives to accelerate research and innovation, another factor that determines productivity, and a just as essential condition of economic growth.

## 1. MODERNIZE AND STRENGTHEN THE QUÉBEC ECONOMY

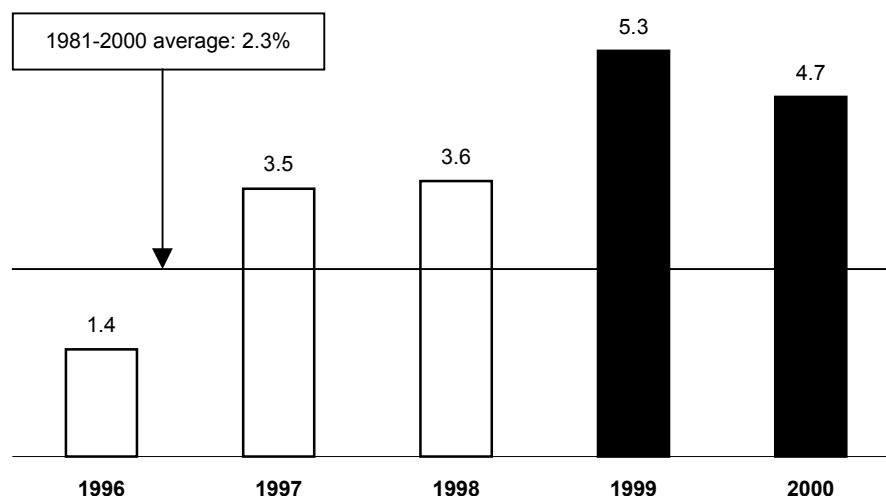
Since the mid-1990s, the Québec economy has been significantly modernized and strengthened.

### CONVINCING ILLUSTRATIONS

The modernization and strengthening of the Québec economy may be illustrated in different ways.

- ➡ In the last four years, Québec has experienced growth in its real gross domestic product far beyond the average for the period from 1981 to 2000. In 1999 and 2000, its growth reached record levels, i.e. 5.3% and 4.7% respectively.

**GRAPH 1**  
**Growth in real gross domestic product – Québec, 1996-2000**  
 (Annual change in percent)

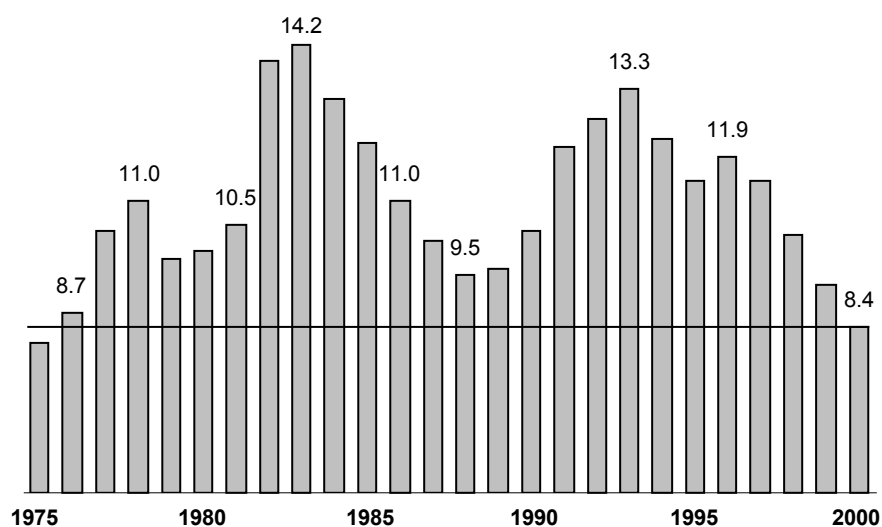


Sources: Institut de la statistique du Québec and ministère des Finances du Québec.

- ➡ From 1997 to 2000, the Québec economy created nearly 300 000 jobs, i.e. more than 70 000 jobs a year, compared with an average of 34 000 jobs annually since 1981.

There has been a significant reduction in the unemployment rate, which reached a record low compared with the last 25 years.

**GRAPH 2**  
**Unemployment rate – Québec, 1975 to 2000**  
(In percent)

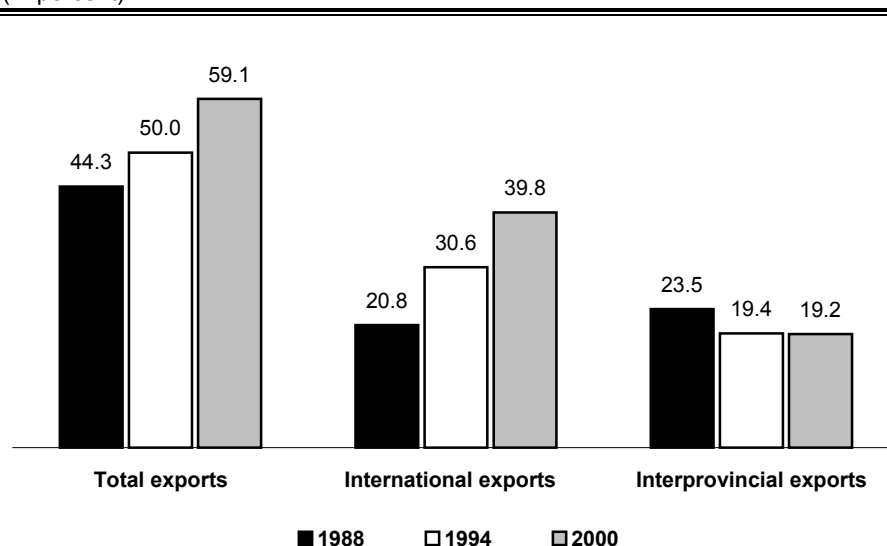


Source: Statistics Canada.

- ➡ A third illustration of the progress achieved is the significant increase in exports. International exports actually doubled as a percentage of GDP, from 21% to 40%, between 1988 and 2000.

The United States, where 86% of our international exports are sent, became Québec's chief economic partner, replacing the Canadian provinces. Québec is now the seventh exporter to the U.S. market, ranking ahead of Taiwan and France.

**GRAPH 3**  
**Share of exports in gross domestic product – Québec,**  
**1988, 1994 and 2000**  
(In percent)

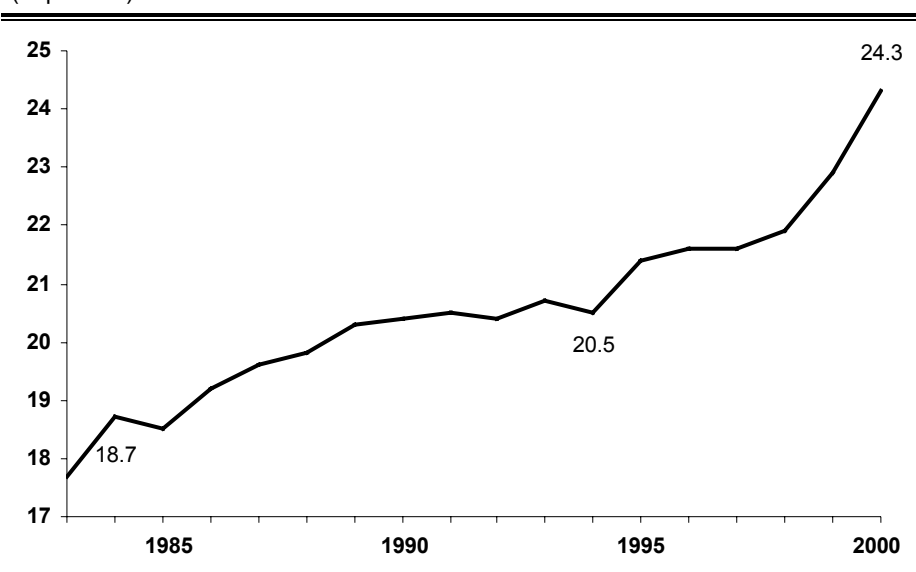


Sources: Statistics Canada and Institut de la statistique du Québec.

- ➡ The structure of the Québec economy rapidly shifted toward advanced-knowledge activities.

Between 1983 and 2000, the share of these activities in the creation of business wealth rose from less than 18% to more than 24%.

**GRAPH 4**  
**Share of advanced-knowledge industries<sup>1</sup> in private-sector real gross domestic product – Québec, 1983-2000**  
(In percent)



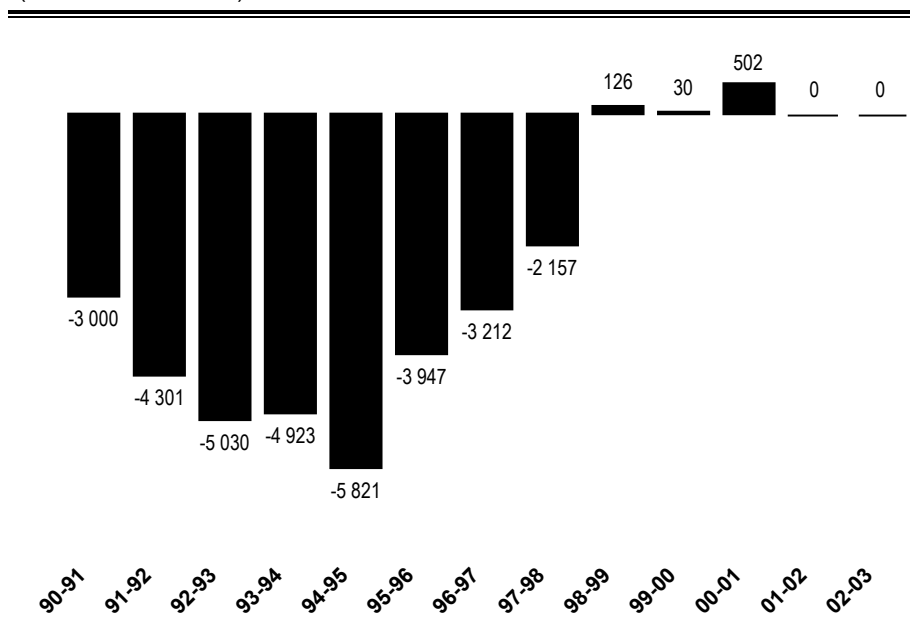
1 Advanced-knowledge industries: aircraft, chemicals (including pharmaceuticals), electronic products, industrial machines, pipeline transport, telecommunications, electricity and business services (including computer services).

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

- ➡ These major changes in the Québec economy took place during the same period that Québec was restoring its budget balance.

It achieved a balanced budget in a relatively short period of time: in 1994-1995, the budget of the Québec government had a deficit of nearly \$6 billion. Since 1998-1999, Québec has tabled five budgets with no deficit, including that in the **2002-2003 Budget Speech**.

**GRAPH 5**  
**Budget balance of the Québec government,**  
**1990-1991 to 2002-2003**  
(In millions of dollars)



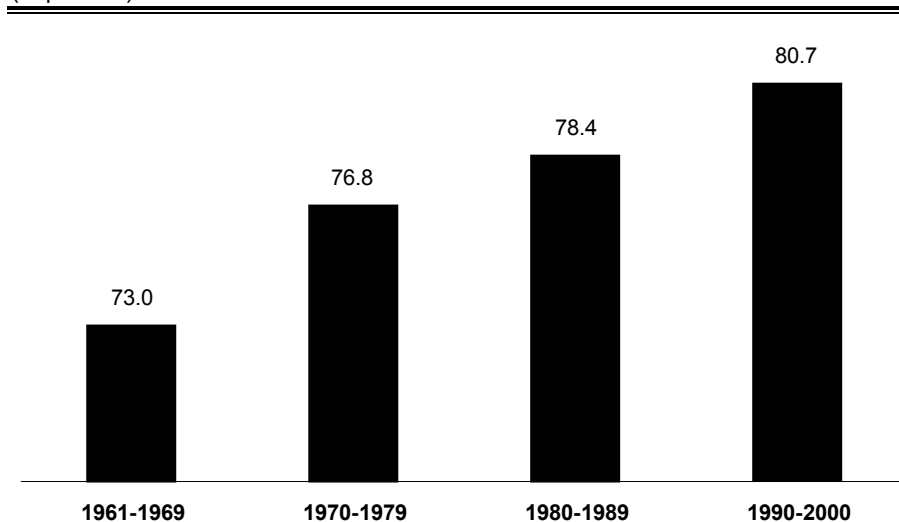
Source: Ministère des Finances du Québec.

## STANDARD OF LIVING AND PRODUCTIVITY

The Québec economy is undeniably more modern and stronger. Québec's progress is gauged in terms of standard of living: the real per capita gross domestic product of Québec increased by an average by 0.1% a year from 1990 to 1994, and by 3.0% a year from 1995 to 2000.

It has been noted, over a long period of time, that Québec has done better than Ontario in this regard. Since 1961, the disparity in standard of living between Québec and Ontario narrowed regularly, the standard of living of Quebecers rising in 40 years from 73% of that of Ontarians to 81%.

**GRAPH 6**  
**Québec-Ontario real per capita gross domestic product ratio,**  
**1961 to 2000**  
(In percent)



Sources: Statistics Canada, Institut de la statistique du Québec, Conference Board du Canada, Ontario Ministry of Finance and ministère des Finances du Québec.

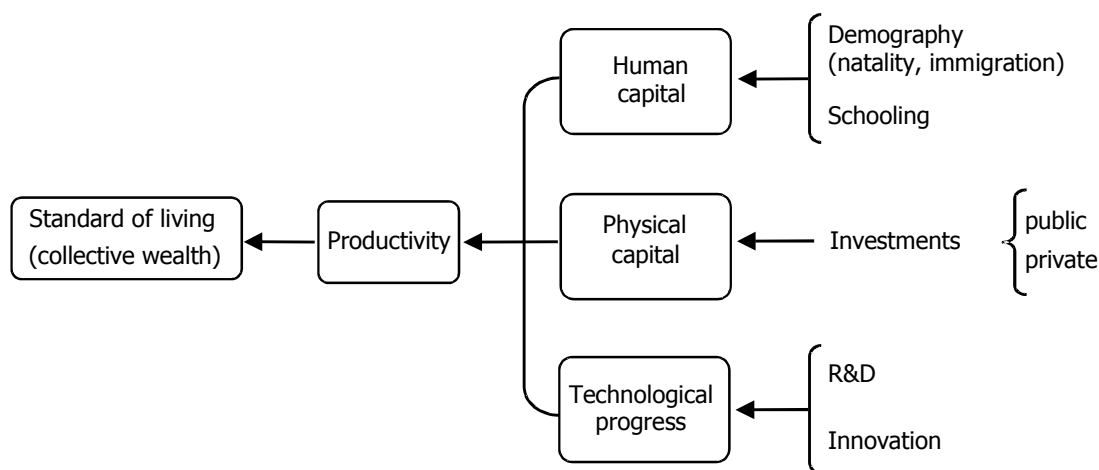
## THE MAIN FACTORS THAT DETERMINE PRODUCTIVITY

The standard of living of a community is, in fact, strongly linked to the productivity of its economy, i.e. to the production of wealth by each of its workers.

That productivity is itself dependent on human capital, physical capital and technological progress.

- ➡ The government's economic policy is aimed, first and foremost, at strengthening physical capital—through investment—and ensuring technological progress—through R&D and innovation.
- ➡ However, it is obvious that the quality and vitality of human capital form the basis for high productivity, and hence, an improved standard of living.

**DIAGRAM 1**  
**The main factors that determine productivity**



Source: Inspired by a publication of the Centre d'étude de niveau de vie, *La productivité: secret de la réussite économique*, March 1998.

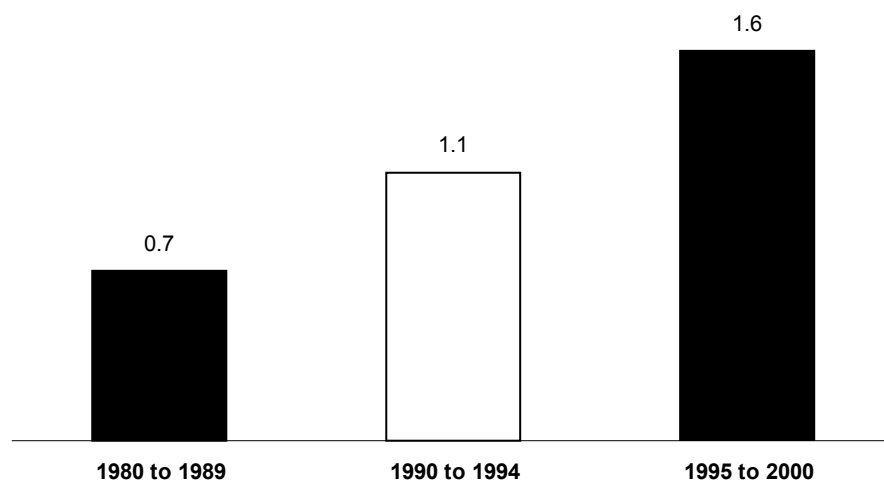


## **THE PRODUCTIVITY CHALLENGE**

Thanks to performances achieved in terms of human capital, physical capital and technological progress, productivity in Québec has grown at a good pace over the past 20 years.

Measured in terms of real GDP per worker, productivity has increased annually by 1.6% from 1995 to 2000, compared with 0.7% during the 1980s, and 1.1% from 1990 to 1994.

**GRAPH 7**  
**Productivity growth in Québec**  
**Real gross domestic product per worker**  
(Average annual change in percent)



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

Despite this progress, Québec's productivity has been insufficient when compared with the performance of a number of industrialized countries. In 2000, labour productivity was 11% higher in Ontario and 27% higher in the United States.

**TABLE 8**  
**Comparison of productivity levels – Québec, Ontario and certain industrialized countries, 2000**  
 (Québec = 100)

	Productivity
Québec	100
Australia	103
France	110
Ontario	111
Ireland	118
Belgium	125
United States	127

Sources: Institut de la statistique du Québec, OECD, Statistics Canada, Ontario Ministry of Finance and ministère des Finances du Québec.

If the productivity disparities between Québec and Ontario are examined more closely, it can be seen that they affect all the main sectors of economic activity.

**TABLE 9**  
**Productivity comparison of Québec and Ontario by sector of activity – annual average, 1996 and 1997**  
 (In current dollars)

	Québec	Ontario	Disparity
Primary	41 632	43 392	- 1 760
Secondary	59 833	66 326	- 6 493
Tertiary	42 945	51 220	- 8 276
<b>Sectors as a whole</b>	<b>48 129</b>	<b>55 694</b>	<b>- 7 565</b>

Sources: Statistics Canada and ministère des Finances du Québec.

This means that, despite lower productivity, Québec businesses had other comparative advantages, particularly lower production costs, that enabled them to be competitive.

It also means that Québec has leeway in which to increase its productivity. This is real strategic potential that it is not fully using at the present time.

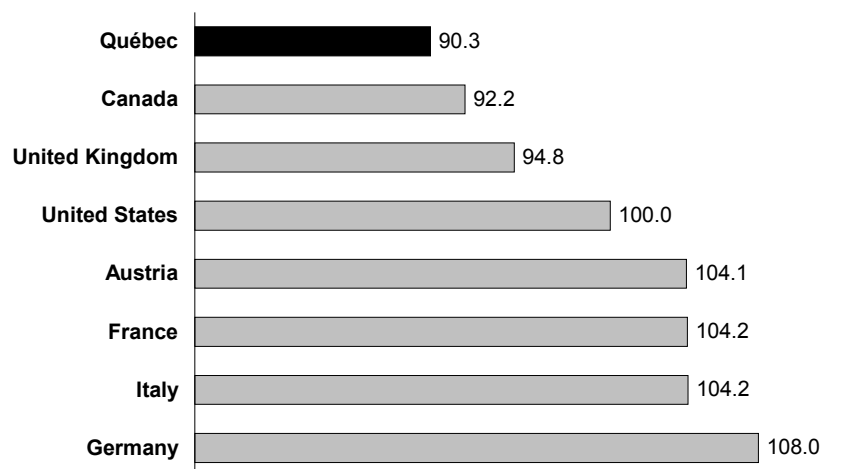
#### **KPMG study of the costs of setting up and operating businesses**

The study conducted in 1999 by KPMG convincingly quantified the nature and scope of the comparative advantage that businesses can have when they decide to invest in Québec: according to the study, businesses established in Québec have business location costs and operating costs that are the lowest among the main industrialized countries.

#### **GRAPH 8**

##### **Business location and operating costs – average for nine industries<sup>1</sup> – Québec and seven countries, 1999**

(United States = 100)



<sup>1</sup> These industries are identified in the following publication: *The Competitive Alternatives – A comparison of business costs in North America and Europe – Focus on Québec*, KPMG, 1999. Source: KPMG.

### ***A three-pronged thrust***

To increase its productivity, Québec must act from an economic standpoint through a three-pronged thrust to:

- ➡ improve its human capital, both quantitatively and qualitatively;
- ➡ increase its investments, a condition for increasing its physical capital;
- ➡ and, at the same time, capitalize fully on technological progress, which involves, in this case, investment in R&D and innovation.

These three thrusts are, in fact, challenges that the Québec economy must meet in the coming years. The government's action since the mid-1990s has consisted in making progress in these three areas.

The economic policy, as examined in this publication, essentially targeted increased investment and intensified R&D and innovation, while the initiatives regarding human capital were covered by other government policies.

The action plan defined in the **2002-2003 Budget Speech** pursues the same objectives, and creates additional tools that will make it possible to accelerate investment and intensify innovation, i.e. increase physical capital and disseminate technological progress.

Before discussing the results obtained in regard to physical capital and technological progress—and highlighting the rationale for the government intervention that contributed to them—certain challenges related to the strengthening of human capital must be mentioned.

## **HUMAN CAPITAL**

Human capital is a determinant of productivity. It depends on factors that are most often within the scope of government policies other than economic ones, be they in regard to birth rate, immigration or education.

However, three specific elements must be discussed here that are directly linked to the growth and development of a population that is able to meet the challenges of a modern economy, i.e.:

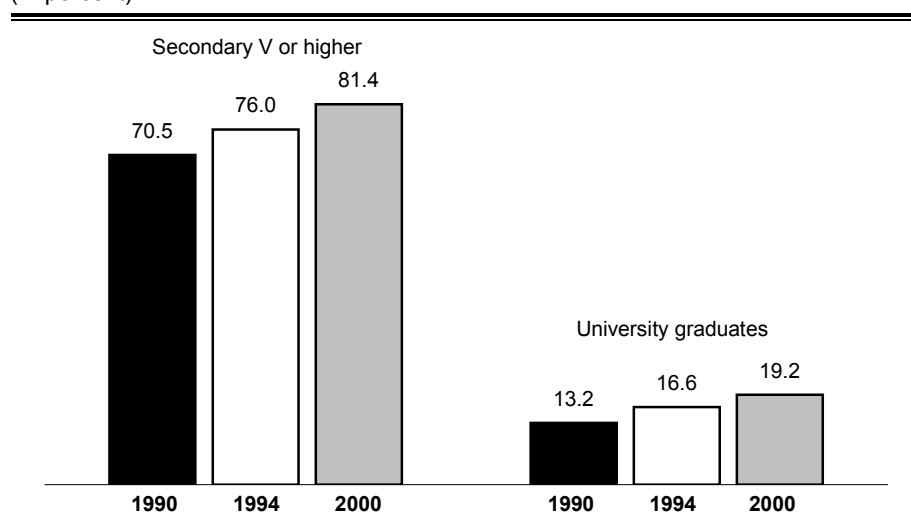
- ▣➡ schooling of the workforce;
- ▣➡ training of the workforce;
- ▣➡ level of personal income tax.

### ***Schooling of the workforce***

The first element is the schooling of the workforce, by which the results of the educational efforts made by the community are measured.

It can be seen that, in Québec, major progress has been made in this regard. The Québec population has one of the highest rates of schooling in the world. In 2000, more than 81% of workers had a secondary school diploma and nearly 20%, a university diploma.

**GRAPH 9**  
**Rate of schooling of workers – Québec, 1990, 1994 and 2000**  
 (In percent)



Source: Statistics Canada.

In fact, among people 20 to 29 years of age, Québec has the highest rate of school attendance of the 24 OECD countries for which data are available.

The high rate of schooling in Québec is reflected in the outstanding position of the City of Montréal in North America. In 1996, Montréal ranked first in North America for the number of students per capita, before Boston and Toronto. In absolute terms, with nearly 150 000 students, Montréal ranked after only New York, Boston, Washington and Chicago, cities whose populations are much larger.

### ***Training of the workforce***

The second element, which is a direct extension of the first, is the training of the workforce.

With the creation of Emploi-Québec, in 1998, all employment services in Québec were streamlined. Emploi-Québec is an integral part of the ministère de l'Emploi et de la Solidarité sociale, which, in particular, provides major support for manpower training.

### ***Level of personal income tax***

The third element concerns the level of personal income tax.

The human capital of a community depends directly on the presence and availability of a qualified workforce, which must be retained and given an incentive to work. It is here that personal income tax comes into play: it has an impact on the retention of the workforce on a given territory, and is an important factor in the quantity of work that the workforce is prepared to carry out.

In this regard, Québec's personal income tax is too high, even though major progress has been made over the last two years to narrow the disparity in tax burden between Québec and neighbouring jurisdictions.

Compared with Ontario, for example, the disparity in tax burden is now \$4.2 billion. That means that Quebecers would pay \$4.2 billion less in income tax if the Ontario government's current tax structure were applied in Québec.

**TABLE 10**  
**Disparity in the tax burden between Québec and the other provinces**  
**when the tax structures of the other provinces are applied to Québec**  
**Personal income tax**  
(In millions of dollars)

	1999	2002 <sup>1</sup>	Change in disparity (percent)
<b>Disparity between Québec and the other provinces<sup>2</sup></b>			
Ontario	5 779 <sup>3</sup>	4 164	- 28
Alberta	4 828	4 852	0
British Columbia	4 046	4 628	14
Nova Scotia	3 300	1 466	- 56
Prince Edward Island	2 676	998	- 63
New Brunswick	2 599	1 068	- 59
Manitoba	1 911	587	- 69
Saskatchewan <sup>4</sup>	1 584	1 113	- 30
Newfoundland <sup>5</sup>	1 321	1 761	33
<b>Average disparity</b>	<b>3 116</b>	<b>2 293</b>	<b>- 26</b>
<i>As a percentage of Québec income tax</i>	20	15	—

1 The estimates take into consideration the federal tax measures and the measures of the other provinces announced on October 24, 2001.

2 The Québec tax abatement of 16.5% is subtracted from the disparity in the tax burden.

3 Excluding the tax dividend paid for the 1999 taxation year.

4 Including the Saskatchewan tax reduction, which will apply only in 2003.

5 Including the income tax reduction planned for 2002, which was recently deferred.

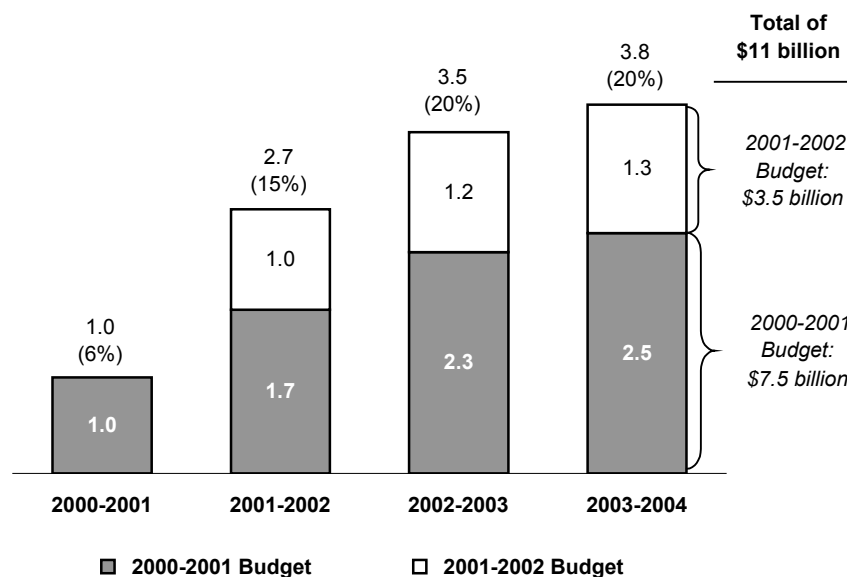
Source: Ministère des Finances du Québec.



The disparity between Québec and Ontario has declined by 28% over the last two years, and has been reduced by 26% compared with the average for the other Canadian provinces. Québec introduced major reductions in the personal income tax burden in 2000 and 2001, and a number of reforms were implemented to improve the incentive to work.

These reductions are, however, insufficient if personal taxation is to be competitive with the other jurisdictions, thereby ensuring favourable conditions for workers, who constitute Québec's human capital.

**GRAPH 10**  
**Cumulative reductions in personal income tax,**  
**2000-2001 to 2003-2004**  
 (In billions of dollars)



Source: Ministère des Finances du Québec.

***Strengthening human capital: one of the priorities of government policies***

Strengthening human capital is obviously a priority of all government policies. The emphasis placed on education and the support provided to the various networks that disseminate knowledge have been apparent in the massive reinvestments under the latest budgets, while ambitious reforms regarding training were implemented.

From a strictly fiscal standpoint, the income tax reductions over the past two years also illustrate the government's determination to improve Québec's competitiveness in that regard. The action plan announced as part of the **2002-2003 Budget Speech** includes the maintenance and upward revision of the indexation of the tax system, thereby confirming the commitments made by the government to reduce income taxes.

***Priorities of economic policy: increase investment and disseminate technological progress***

In addition to taking action in regard to human capital, the government is intervening in regard to two other determinants of productivity: investment, and R&D and innovation, two business-driven elements.

The government's initiatives since the mid-1990s to increase investment and disseminate technological progress are, in fact, crucial elements of economic policy, defined in the strict sense, that the government has gradually implemented.

The following two sections discuss the strategy developed to support businesses in these two areas.

## 2. INCREASE INVESTMENT TO BOLSTER PHYSICAL CAPITAL

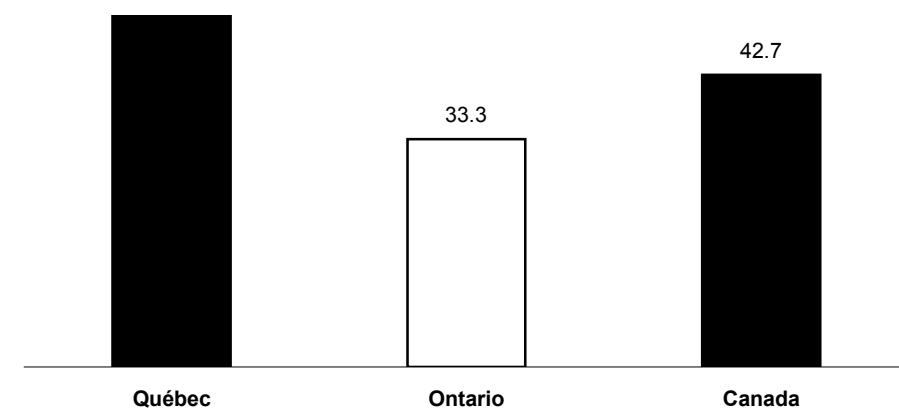
### INVESTMENT GROWTH

As has been pointed out previously, investment growth depends primarily on businesses. Private investment is the most stable and lasting source of growth and employment, which is why the government's economic policy places businesses at the centre of most of the strategies designed to increase investment.

Since 1995, Québec has experienced strong growth in private non-residential investment, which provides a good indication of an economy's investment effort. Private non-residential investment has grown by 61%, compared with increases of 33% in Ontario and 43% in Canada as a whole.

**GRAPH 11**  
**Growth in private non-residential investment – Québec, Ontario and Canada, 1995-2000**  
 (Percent)

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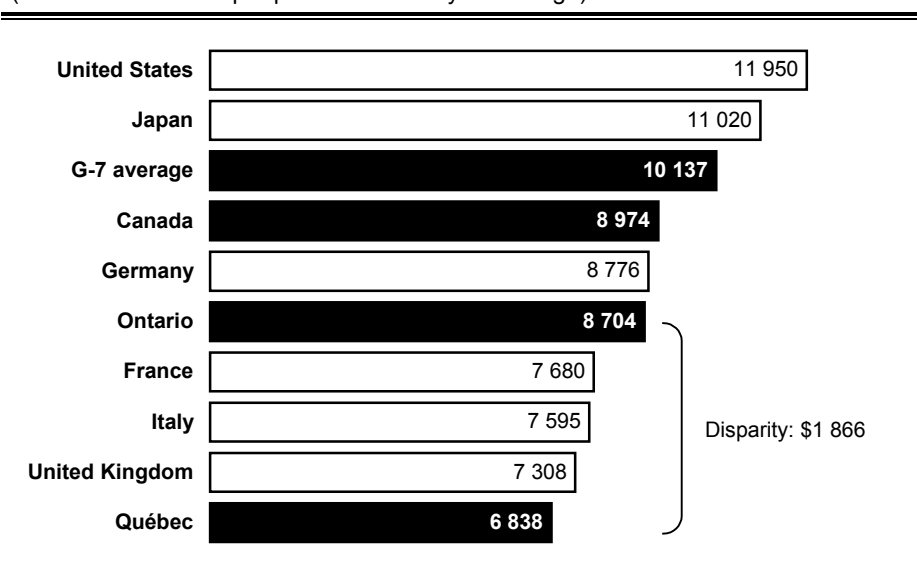


Source: Statistics Canada.

However, these results should not be allowed to obscure a worrisome reality: despite significant progress since 1995, Québec is still behind major western economies as far as investment by businesses is concerned. In 1999, per capita investment in Québec stood at \$6 838 compared with \$8 704 in Ontario, a difference of \$1 866 per capita or some \$9.5 billion overall.

The disparity compared to major industrialized economies is even greater: in 1999, per capita investment was almost twice as high in the United States and Japan than in Québec, and exceeded \$10 000 for G-7 member countries as a whole.

**GRAPH 12**  
**Per capita investment – Québec, Ontario**  
**and G-7 member countries, 1999**  
(In Canadian dollars per person 15 to 64 years of age)



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

## KEEPING THE CORPORATE TAX SYSTEM COMPETITIVE

To bolster the economy's physical capital by increasing investment, the government began by keeping the tax system as it pertains to businesses competitive.

For many years now, Québec's tax system applicable to business has been, on the whole, competitive and more favourable than in the rest of Canada. Accordingly, in 2001, Québec businesses bore a tax burden that was \$1.4 billion lower than what they would have paid under Ontario's tax system.

**TABLE 11**  
**Québec-Ontario tax burden differential: corporate taxes, 2001**

	Millions of dollars	Percent
Income tax	-1 100.9	-38.8
Tax on capital	999.4	118.3
Payroll tax <sup>1</sup>	1 865.4	173.2
<b>Sub-total</b>	<b>1 763.9</b>	<b>37.0</b>
Consumption taxes	-1 221.5	-35.2
Fees	-326.3	-30.4
Local and school taxes	-1 648.6	-37.9
<b>Total</b>	<b>-1 432.5</b>	<b>-10.5</b>

<sup>1</sup> In Québec, the employer contribution to the Health Services Fund.  
Source: Ministère des Finances du Québec.

There are essentially three reasons for this favourable difference:

- ➡ Québec's tax system has one of the lowest corporate income tax rates in North America. Compared with Ontario, the difference in tax burden for this component amounts to \$1.1 billion in favour of businesses in Québec.
- ➡ Another reason for the competitiveness of Québec's tax system is the refund of sales tax on inputs, which represents an advantage of \$1.2 billion for businesses in Québec compared with their competitors in Ontario.
- ➡ Lower local and school taxes provide Québec businesses with a further advantage of \$1.6 billion, compared with businesses in Ontario.

As was pointed out in the first section of this publication, Québec's tax system applied to businesses does suffer from one weakness, i.e. significant fixed charges.

In the recent reform of the tax system applied to businesses, in 1999, the government began to correct this situation by substantially reducing the payroll tax on SMEs.

**TABLE 12**  
**Illustration of reductions to the rate of contribution of the Québec Health Services Fund (HSF), 1999 to 2001**

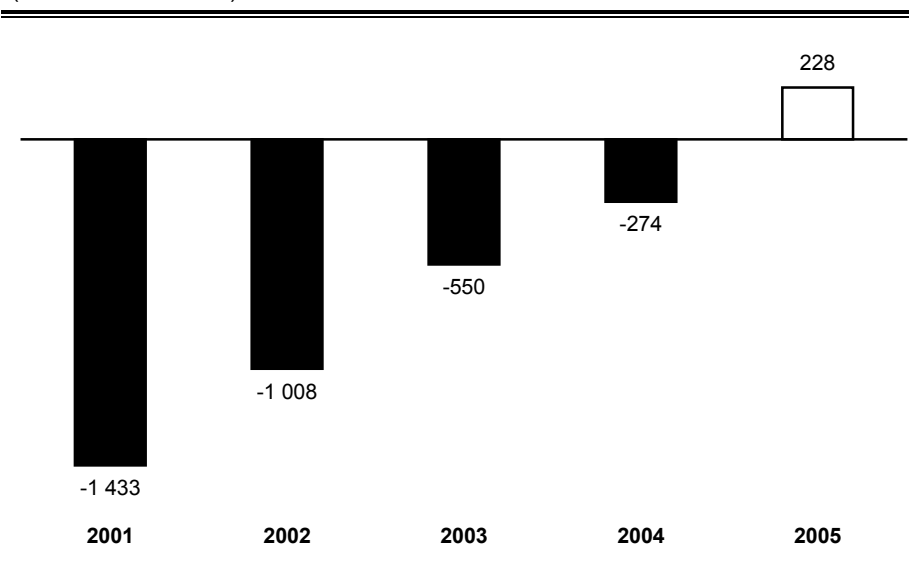
Payroll	Rate before reduction	1999	2000	2001	Total reduction
Under \$1 million	4.26%	4.00%	3.22%	2.70%	-36.6%
\$2 million	4.26%	4.07%	3.48%	3.09%	-27.5%
\$3 million	4.26%	4.13%	3.74%	3.48%	-18.3%
\$4 million	4.26%	4.19%	4.00%	3.87%	-9.2%
\$5 million or more	4.26%	4.26%	4.26%	4.26%	-

Note: The rate of contribution to the HSF rises linearly for businesses whose payroll lies between \$1 million and \$5 million. The rate reductions become effective January 1 of each year.

In the **2002-2003 Budget Speech**, the government is taking a major step in reducing fixed charges on businesses, this time by targeting the tax on capital.

This was a necessary initiative: recent announcements by a number of provinces pointed to an erosion of Québec's competitive advantage. For instance, by 2005, had nothing been done, businesses in Québec would have lost the advantage of close to \$1.7 billion they currently enjoy over their Ontario competitors.

**GRAPH 13**  
**Québec-Ontario tax differential: corporate income tax, 2001-2005**  
**Situation prior to the reduction of the tax on capital**  
(In millions of dollars)



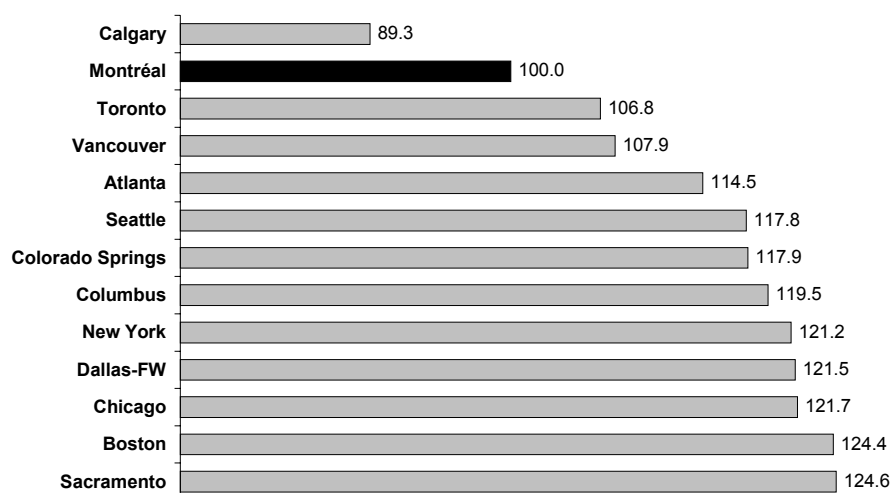
Source: Ministère des Finances du Québec.

The plan to reduce the tax on capital, announced in the **2002-2003 Budget Speech** and whose main components have already been described, will enable Québec to remain tax competitive.

#### GRAPH 14

#### Index of tax competitiveness – KPMG simulation model,<sup>1</sup> 2007

(Index: Montréal = 100)



<sup>1</sup> Reflects all announcements made to date in Canadian jurisdictions. Based on business location and operating costs in Montréal, average of 18 industries. These industries are identified in: *A Comparison of Business Costs in Major North American Cities*, KPMG, 1999.

Sources: KPMG and ministère des Finances du Québec.

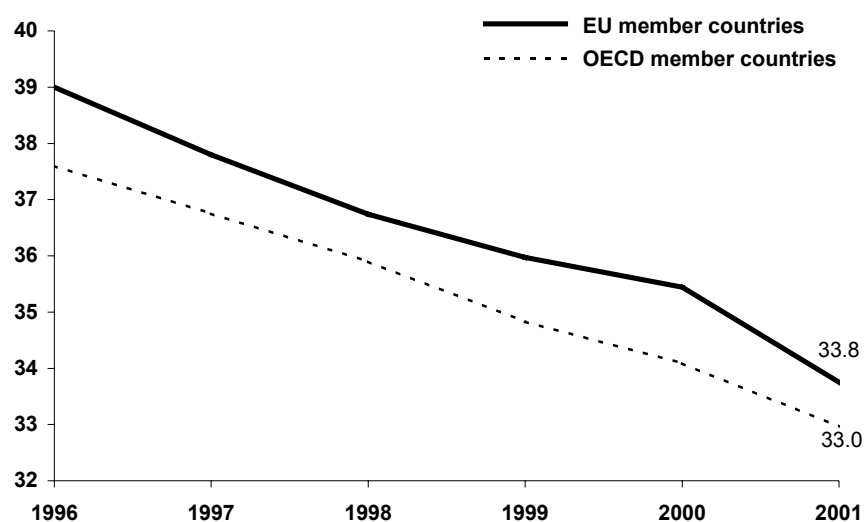
By implementing a plan to reduce the tax on capital, together with an exemption for SMEs, the government is sending a very clear signal that should have a positive influence on the investment decisions of businesses.



**Lower corporate income taxes: a global trend**

While it responds to a delicate economic situation, the government is in line with a general trend in major industrialized countries: in response to the growing mobility of capital, many of these countries have already begun to make significant cuts in business taxes.

**GRAPH 15**  
**Average tax rate on businesses – OECD and European Union (EU)**  
**countries, 1996 to 2001**  
(Percent)



Source: KPMG.

## **GOVERNMENT SUPPORT FOR BUSINESS FINANCING AND CAPITALIZATION**

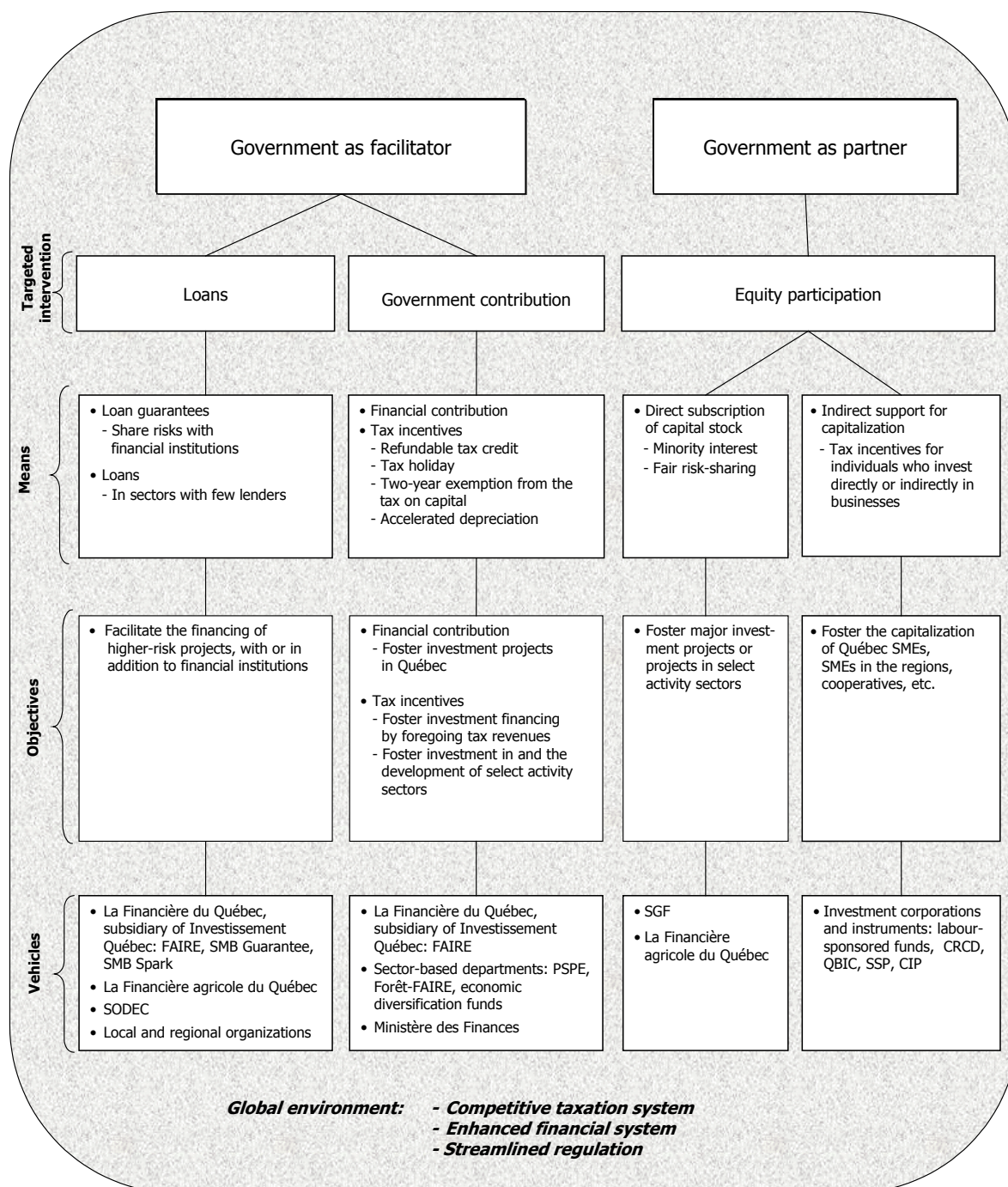
While keeping its tax system competitive, the government has acted on two fronts to facilitate the financing of private investment:

- ➡ The Québec government facilitates the efforts of businesses in obtaining such financing.
- ➡ In some cases, it even plays a partnership role, by facilitating their capitalization.

The following diagram summarizes the mechanisms implemented for each of these two approaches.

**DIAGRAM 2**

**Québec's financial instruments for increasing private business investment**



***Government as facilitator***

To encourage businesses to increase their investments, and thus create jobs, the government acts initially as a facilitator, i.e. it helps businesses to finance the investments they want to make.

The government does so in two ways:

- ➡ It makes loans to businesses or helps them obtain loans.
- ➡ It contributes directly to their investments.

### Loans and loan guarantees

Mechanisms have been put in place as part of the government's economic policy to enable businesses to borrow the funds they need for their investment.

- ➡ The main supplier of loan guarantees is La Financière du Québec, a subsidiary of Investissement Québec. This government corporation guarantees loans to businesses of any size, large or small. The vehicle used in the first case is the Private Investment and Job Creation Promotion Fund (FAIRE) program. For SMEs, guarantees to sustain business start-ups are provided through the SMB Spark program, while guarantees to sustain business growth and development are provided through the SMB Guarantee program.

Local organizations, such as the local development centres (CLD), also guarantee loans contracted by SMEs.

In the agricultural sector, this assistance is provided by La Financière agricole du Québec. And in the cultural sector, SODEC provides financial support for cultural enterprises.

#### **Loan guarantees**

In the event of a loss, part of the shortfall is covered by the organization that provided the guarantee, according to the terms of the guarantee. This guarantee encourages financial institutions to take a greater risk with a given business.

- ➡ Loans in the strict sense are provided by these same government organizations, when businesses are unable to find the financing necessary for their investment from financial institutions.

There is no need to review the broadened and improved financial support for businesses introduced by the **2002-2003 Budget Speech**, or the creation of La Financière du Québec. In every case, the purpose is to make use of existing mechanisms to accelerate the initiation of private investments, and in so doing respond to the delicate economic situation.

These mechanisms are very effective in financing businesses. In 2000-2001, financing consisting of loans and loan guarantees for Québec businesses amounted to \$491 million and contributed to the financing of 546 projects.

**TABLE 13**  
**Financing programs and investment projects financed, 2000-2001**

Loans and loan guarantees	Amount of financing provided (millions of \$)	Number of projects financed
FAIRE	322.0	34
SMB Guarantee <sup>1</sup>	158.4	374
SMB Spark	10.5	138
<b>Total</b>	<b>490.9</b>	<b>546</b>

<sup>1</sup> Including guarantees to cooperatives and businesses in the social economy.  
Source: Ministère des Finances du Québec.

### *Direct contribution*

The second way the government as facilitator helps businesses to finance their investments is to provide them with a direct contribution. As part of its economic policy, the government has set up four types of direct contributions.

- ➡ Financial contributions are essentially allocated under the FAIRE program and are administered by La Financière du Québec. Such contributions are an essential tool to enable Québec to compete with other jurisdictions also working to attract investments.

These financial contributions can take a variety of forms, from non-repayable contributions to contributions whose repayment depends on the financial results obtained.

In principle, the FAIRE program is reserved for major investment projects. For contributions to smaller projects, the government has created other programs, such as the Programme de soutien aux projets économiques (PSPE), Forêt-FAIRE and economic diversification funds.

➡ The refundable tax credit is similar to a direct financial contribution. This form of support is used mainly for research and innovation, as will be seen later. For investments in physical capital, the refundable tax credit is used for businesses located in particular in the Montréal Foreign Trade Zone at Mirabel.

➡ Tax holidays are the third form of direct contribution used by the government in its economic policy.

- The tax holiday for major investment projects, introduced in the *2000-2001 Budget Speech*, applies, for ten years, to income tax, the tax on capital and the employer contribution to the Health Services Fund. It is offered to business that reach a certain investment or job creation threshold.

This mechanism is useful in approaching multinational corporations for whom taxation is a particularly important component in the investment decision. Québec thus has a flexible tool for presenting competitive offers to obtain such investment projects.

- Another type of tax holiday is geared particularly to new business start-ups. New SMEs can benefit from a tax holiday for their first five years of operation, which is a major boost to their long-term viability.
- Lastly, in March 2001, a tax holiday was implemented for SMEs in the manufacturing sector located in remote resource regions.



- ➡ The fourth type of direct contribution is also fiscal in nature: the 125% accelerated depreciation deduction, available until March 31, 2005, for manufacturing or processing equipment and computer hardware, in particular.

This measure completes a two-year tax holiday applicable following the acquisition of the same type of assets and buildings used in manufacturing or processing. These are major tax incentives for the acquisition of advanced equipment necessary to improve productivity and cut costs.

**TABLE 14**  
**Major government contributions for investment projects, 2000-2001**

	Total contributions (millions of \$)	Number of recipient businesses or projects
<b>Financial contributions</b>		
FAIRE	206.1	56
PSPE	0.9	7
Forêt-FAIRE	2.0	3
<b>Sub-total: financial contributions</b>	<b>209.0</b>	<b>66</b>
<b>Fiscal measures<sup>1</sup></b>		
General measures		
– Accelerated depreciation	144.0	41 000
– Exemption from the tax on capital regarding new investments in certain sectors	74.9	35 000
Regions		
– Shipbuilding or conversion	15.0	8
– Processing activities	–	–
– Vallée de l'aluminium	1.0	20
– Gaspésie and certain maritime regions	–	–
– Tax credit for resources	–	–
Sectoral		
– Montréal Foreign Trade Zone at Mirabel	–	–
– Financial sector	27.4	182
– Other	21.9	184
Tax holidays		
– Five-year tax holiday for new corporations	47.7	7 000
– Ten-year tax holiday for manufacturing SMEs in the resource regions	–	–
– Major investment projects	–	–
Other	26.3	n/a
<b>Sub-total: fiscal measures</b>	<b>358.2</b>	<b>83 394</b>
<b>Total</b>	<b>567.2</b>	<b>83 460</b>

1 Fiscal measures are those in effect in 2001 and calendar year 2000 is the reference for the financial impact.

### ***The government as partner***

The government can do more to provide support for private investment and participate as a partner in the transaction carried out by the business. The economic policy has two tools for this purpose:

- ➡ Direct subscription of capital stock.
- ➡ Indirect support for capitalization.

### **Direct subscription of capital stock**

The government has various government corporations that participate directly in the capital stock of businesses. They act when a capital stock contribution is needed to balance a project's financial structure. Of these, the Société générale de financement du Québec (SGF) is the preferred organization for generating major investment projects in Québec. It intervenes according to the following principles:

- ➡ It holds a minority participation, so that decisions are taken on a business basis.
- ➡ Its intervention is temporary, until the project reaches maturity.
- ➡ Its participation is on a business basis, at conditions and a level of risk equivalent to those of the private partner.

*Indirect support for capitalization*

This category comprises the various tax incentives set up by the government to encourage individuals to finance investments by businesses.

These incentives – tax credits and tax deductions – gave rise to the creation and rapid development of the Stock Savings Plan (SSP), the Cooperative Investment Plan (CIP), Québec Business Investment Companies (QBICs), the flow-through share regime, labour-sponsored funds (Fonds de solidarité FTQ, Fondaction), and more recently, Capital régional et coopératif Desjardins (CRCD).

As the following table indicates, the Québec government becomes involved with businesses to carry out investments mainly through direct subscriptions of capital stock, the SGF being the chief instrument used for this purpose.

**TABLE 15**  
**Major state equity participations to support investment projects,**  
**2000-2001**

	Total participations (millions of \$)	Number of projects or capitalized businesses
<b>Direct subscription of capital stock</b>		
SGF	420.0	35
<b>Indirect capitalization support<sup>1</sup></b>		
Labour-sponsored funds	113.0	258
SSP	17.1	20
CIP	6.3	40
QBIC	8.0	40
Flow-through shares	3.0	24
CRCD	—	—
<b>Sub-total indirect capitalization support</b>	<b>147.4</b>	<b>382</b>
<b>Total</b>	<b>567.4</b>	<b>417</b>

1 For indirect capitalization support, the figures shown refer to measures in effect in 2001 and calendar year 2000 is the reference for the financial impact.

### **An enhanced financial system**

Increased investment also requires a strong financial sector ensuring the presence in Québec of strategic decision-making vehicles able to offer Québec businesses financial products adapted to their needs.

The economic policy encourages the development of Québec's financial sector. Specific initiatives have been taken to support certain strategic players – namely the Montréal Exchange and the Nasdaq Stock Market.

- The government has supported the development of the financial sector by creating international financial centres (IFCs) in Montréal, and by encouraging the creation of mutual funds administered and managed in Québec. Montréal now has 100 IFCs. In addition, tax incentives have contributed to the creation of 130 mutual funds.
- The Québec government helped the Montréal Exchange to specialize in exchanged-traded financial derivatives, for which the ME has exclusive rights in Canada, and the development of its expertise in B2B e-commerce.
- A major step in the development of the financial system was taken in November 2000 with the arrival of the Nasdaq Stock Market in Montréal. As a result of Nasdaq's arrival, Québec corporations will be able to be listed on this electronic stock market as of 2002.

### Regulatory streamlining

The degree of regulation is an integral part of the environment in which businesses operate and accordingly plays a direct role in initiating and carrying out investments.

In 1996, the Summit on the Economy and Employment provided an opportunity to spotlight the administrative burden imposed by Québec's regulatory system and how it can slow private investment growth. An advisory group on regulatory streamlining was then set up to suggest appropriate improvements.

Many steps have been taken to reduce the burden of Québec's regulatory system:

- ➡ Following the advisory group's work, the government reduced the regulatory burden of forms and permits on businesses. Close to two million forms were either simplified or eliminated.
- ➡ Deregulation initiatives were undertaken, in the agri-food sector in particular.

**TABLE 16**  
**Major deregulation initiatives in Québec**

#### Regulatory streamlining

Taxation of businesses	Over 700 000 permits and authorizations eliminated Simplification of the QST and harmonization with the GST
Transportation	Over 300 000 permits and certificates eliminated
Forwarding of reports	Over 800 000 reports forwarded electronically

#### Deregulation

Agri-food sector	Merger of nine stabilization insurance plans Repeal of four laws
Transportation	Elimination of driving school permits

Source: Secrétariat à l'allègement réglementaire.

- ➡ In addition, the **2002-2003 Budget Speech** is introducing a measure to allow over 100 000 employers to make quarterly, rather than monthly, remittances. This measure will eliminate the filing of over 800 000 forms.

## TARGETED INVESTMENT SUPPORT POLICIES

In recent years, and as part of its economic policy, the Québec government has taken specific action targeting the resource regions and the social economy. In both cases, a set of structured initiatives was set up and major financial resources were mobilized for this purpose, to stimulate investment.

### *Measures concerning the resource regions*

Starting in the mid-1990s, the government made a substantial effort to provide the resource regions with appropriate development tools. The *2001-2002 Budget Speech* provided an opportunity to bolster them substantially and incorporate them into a comprehensive strategy.

The regions concerned are Gaspésie–Îles-de-la-Madeleine, Bas-Saint-Laurent, Côte-Nord, Nord-du-Québec, Saguenay–Lac-Saint-Jean, Abitibi-Témiscamingue and Mauricie. These regions have common geographic and economic features and problems, and are all characterized by disparities in income and unemployment rate compared to the rest of Québec.

The same is also true of the Antoine-Labelle, Vallée-de-La-Gatineau and Pontiac RCMs, which prompted the government to provide them with advantages comparable to those of the resource regions.

The actions taken by the government are driven by three main focuses:

- ➡ Increasing value-added and accelerating economic diversification.
- ➡ Growth of the resource sector.
- ➡ Financing of SMEs and business creation.



In all, the fiscal and budgetary measures implemented by the government provide close to \$800 million of support over three years.

**TABLE 17**  
**Financial impact of the fiscal and budgetary measures for the resource regions, 2001-2002 to 2003-2004**  
(In millions of dollars)

Measures	2001-02	2002-03	2003-04	Total
<b>Value-added and economic diversification</b>				
Zero income 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
<b>Growth in the natural resources sector</b>				
Support for forest resource development	61	33	33	126
Support for mining exploration	36	51	51	138
<b>Facilitate the financing of SMEs and the creation of businesses</b>	51	64	55	170
<b>Total</b>	<b>237</b>	<b>284</b>	<b>267</b>	<b>788</b>

Note: Measures announced in the 2001-2002 Budget Speech. Does not reflect initiatives announced in this Budget Speech.

Some of the actions taken by the government have been extended to about 20 RCMs in central regions that suffered from income and unemployment disparities similar to those of the resource regions. These actions total \$23 million over three years.

### **The ministère des Régions**

To structure and coordinate its initiatives in Québec's regions, the government created the ministère des Régions in 1998.

The mission of this department is to:

- ➡ Consolidate partnership with local and regional communities in taking charge of their development;
- ➡ secure the cooperation of government departments and organizations to ensure that government action is harmonized and consistent;
- ➡ design and implement follow-up and assessment measures for local and regional development and develop expertise in research and future planning.

### ***Support for the social economy***

At the 1996 Summit on the Economy and Employment, the government undertook to support the development of the social economy in Québec. Today, the social economy has close to 5 000 businesses, about 50 000 jobs and sales of over \$4 billion.

In addition to the new measures announced in this Budget Speech, an array of measures supporting businesses in the social economy, representing over \$175 million, has been put in place since 1996:

- ➡ Targeted sectors are the environment, domestic help services, job-entry enterprises and early childhood centres.
- ➡ The measures taken by the government have helped support 1 000 businesses and fostered the creation and maintenance of 15 000 jobs.
- ➡ Favourable impacts of the support provided for the social economy include entry into the labour market, a decline in unreported work and solutions to certain social needs.

**TABLE 18**  
**Measures supporting social economy businesses, 1996 to 2001**  
(In millions of dollars)

Measures	Total amount
Réseau d'investissement social du Québec	6.6
Fonds de développement des entreprises d'économie sociale (CLD) <sup>1</sup>	4.0
➡ CLD de Laval et Montréal <sup>2</sup>	8.0
➡ CLD des autres régions <sup>2</sup>	18.1
➡ Business consolidation <sup>3</sup>	6.0
NPO Guarantee – Investissement Québec <sup>2</sup>	48.0
CO-OP Guarantee – Investissement Québec <sup>2</sup>	62.2
Assistance program for waste management businesses	9.2
Filaction	1.5
Program supporting sectoral groups in the social economy	6.0
Fonds de consolidation des entreprises d'aide domestique	7.0
<b>Total</b>	<b>176.6</b>

1 Additional funding announced June 6, 2001 (CLD social economy enveloped).

2 Funding provided.

3 Additional funding provided for CLDs in the 2000-2001 Budget Speech.

**Financial tools designed specifically for cooperative businesses**

- ➡ Co-op Guarantee (Investissement Québec)
  - Loans and loan guarantees for cooperatives' investment projects.
  - 156 projects financed over the period 1998-2001. Financing of \$62.2 million provided over this period.
  - Improvement announced in the **2002-2003 Budget Speech**: capitalization loan and other quasi-equity financing.
- ➡ Cooperative Investment Plan (CIP)
  - Deduction of the cost of acquisition of part of a cooperative by a member or worker of the cooperative.
  - Improvement in 2001-2002:
    - ⇒ Maximum annual deduction raised from 10% to 30% of the individual's total income.
  - Estimated cost of the plan for calendar year 2001: \$8.3 million.
- ➡ Capital régional et coopératif Desjardins (CRCD)
  - Formed in 2001-2002.
  - Will marshal a minimum of \$900 million of venture capital by 2010 for businesses and cooperatives located mainly in the resource regions.

As part of its economic policy, the Québec government has made substantial efforts to develop private investment, an essential condition for the modernization of physical capital that is the basis of productive activity.

The measures announced in the **2002-2003 Budget Speech** maintain the same course by announcing that the tax system pertaining to business will remain competitive and by improving financial support programs.

The government's economic policy also seeks to accelerate the spread of advances in technology by acting on R&D and innovation. Here again, encouraging results have been obtained and new measures are introduced in the **2002-2003 Budget Speech**, specifically targeting the new economy.

### **3. BENEFIT FROM TECHNOLOGICAL ADVANCES: INTENSIFYING INNOVATION EFFORTS**

In addition to investments in physical capital, innovation efforts—taken in the broad sense, i.e. including research and development (R&D)—enable a community to benefit from technological advances and, thereby, increase its productivity and standard of living.

Québec's economic policy stresses R&D and innovation, and the results have been significant in this regard.

## R&D SPENDING

Québec enterprises have invested heavily in research and development over the past ten years. Thanks to these investments, Québec has significantly closed the gap between it and the major industrialized countries.

Between 1989 and 1998, the average annual growth in R&D spending by businesses was higher in Québec than in Ontario and in Canada as a whole. It grew 8.4% in Québec, compared with 7.4% in Ontario and in Canada as a whole.

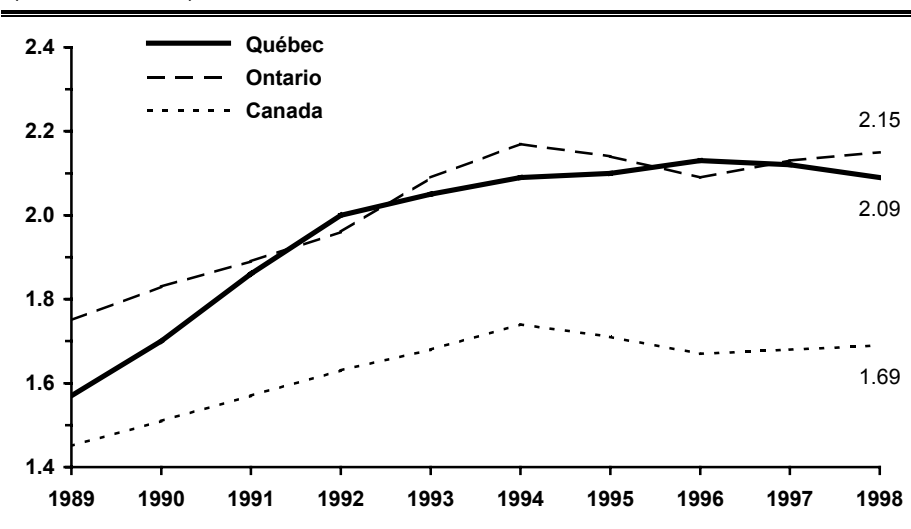
**TABLE 19**  
**R&D spending by business firms – Québec, Ontario and Canada,**  
**1989 to 1998**  
(In millions of dollars)

Jurisdictions	1989	1991	1993	1995	1997	1998	Average annual growth (Percent)
Québec	1 245	1 520	1 802	2 277	2 500	2 584	8.4
Ontario	2 729	2 952	3 507	4 341	4 823	5 181	7.4
Canada	4 779	5 355	6 424	8 013	8 709	9 111	7.4

Source: Institut de la statistique du Québec.

As a percentage of GDP, Québec invests more in research and development than Canada as a whole. It has even been on a par with Ontario since the early 1990s.

**GRAPH 16**  
**Domestic R&D spending – Québec, Ontario and Canada,**  
**1989 to 1998**  
(Percent of GDP)



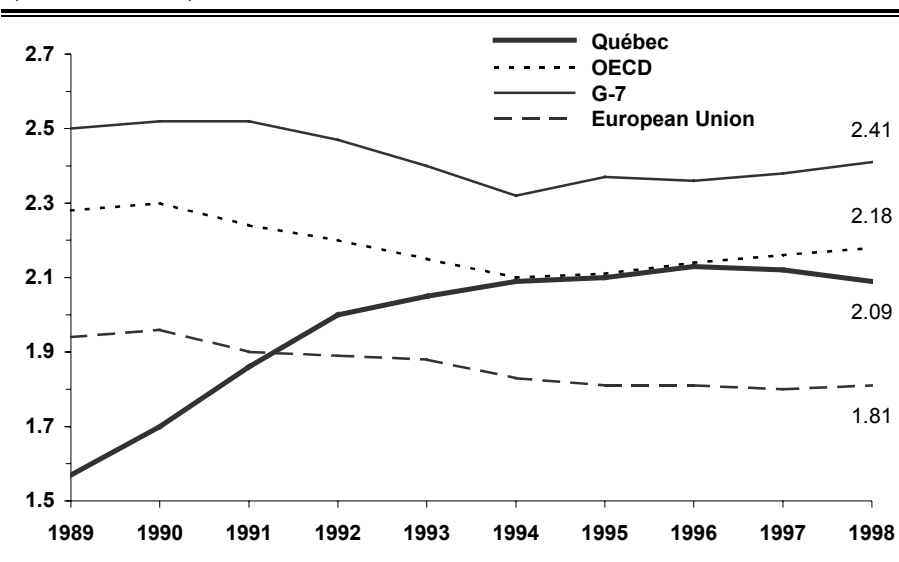
Source: Institut de la statistique du Québec.



The same comparison holds in relation to the European Union. Since 1991, Québec has spent more on R&D, as a percentage of GDP, than all member nations of the European Union.

Although there is still a gap between Québec and the OECD member countries and G-7 economies, it has been significantly narrowed.

**GRAPH 17**  
**Domestic R&D spending – Québec and other jurisdictions,**  
**1989 to 1998**  
 (Percent of GDP)



Source: Institut de la statistique du Québec.

Note that Québec's R&D performance could have been even better if not for the federal government's underinvestment in this area: federal R&D investment in Québec is well below that in Ontario. In fact, in the past ten years, per-capita spending on R&D by the federal government has been nearly three times higher in Ontario than in Québec.

**TABLE 20**  
**Federal R&D spending in**  
**Québec and Ontario, 1989 to 1998**  
 (Dollars per capita)

	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998
Québec	23	25	26	27	29	30	29	28	26	30
Ontario	66	70	71	74	76	73	79	83	78	80
<b>Discrepancy</b>	<b>-43</b>	<b>-45</b>	<b>-45</b>	<b>-47</b>	<b>-47</b>	<b>-43</b>	<b>-50</b>	<b>-55</b>	<b>-52</b>	<b>-50</b>

Source: Institut de la statistique du Québec.

### Federal underinvestment in R&D in Québec

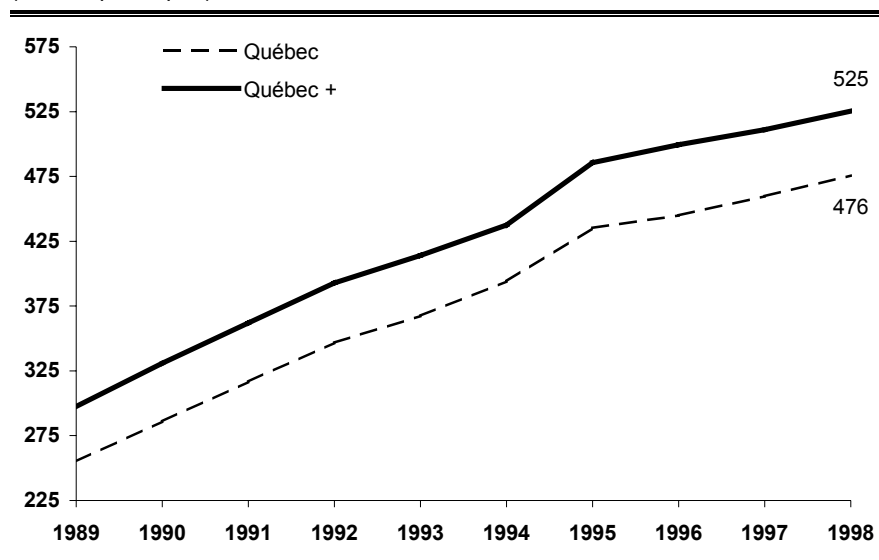
Federal underinvestment in R&D deprives Québec of strategic spending, which is critical to the dissemination of technological advances.

Consequently, if Québec had benefited from the same level of federal R&D spending per capita as Ontario, its overall performance in this area would have been substantially better. It would have meant roughly \$350 million more in R&D spending in Québec in 1998.

#### GRAPH 18

**Comparison of total R&D spending if Québec had benefited from the same level of federal spending as Ontario, 1989 to 1998**

(Dollars per capita)



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

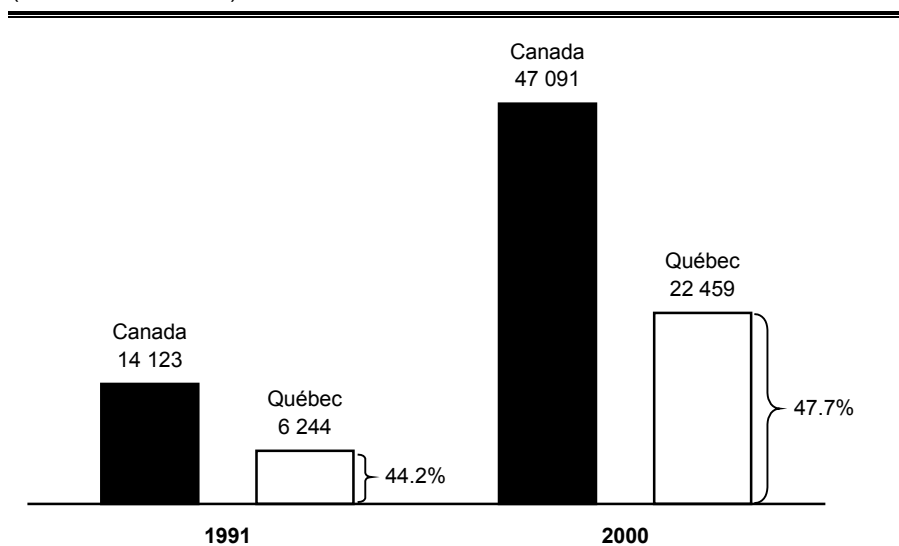
## BREAKTHROUGH OF KNOWLEDGE-BASED INDUSTRIES

The development of high tech industries in Québec is a direct outcome of the successful R&D and innovation efforts of Québec businesses. This development is apparent on several levels.

### *High technology exports*

Québec alone accounts for almost 50% of Canada's high technology exports. Already very strong in 1991, its share of such exports was even higher in 2000.

**GRAPH 19**  
**Comparison of Québec and Canadian**  
**high tech exports,<sup>1</sup> 1991 and 2000**  
 (In millions of dollars)



<sup>1</sup> Advanced-knowledge industries: aircraft, chemical products (including pharmaceuticals), electronic products, industrial machines, pipeline transport, telecommunications, electricity and business services (including information systems).

Source: Institut de la statistique du Québec.

### ***Highly successful sectors***

Québec businesses performed very strongly in three sectors in particular: information technologies, biopharmaceuticals and aerospace.

#### **Information technologies**

- ➡ Over 4 000 enterprises are established in Québec. In 1999, they generated revenues of \$31 billion.
- ➡ Information technology exports reached upward of \$9 billion in 1999.
- ➡ These businesses provide more than 100 000 jobs.
- ➡ They invested \$800 million in R&D in 1999.

#### **Biopharmaceuticals**

- ➡ The biopharmaceuticals industry provides jobs to 14 000 people in Québec. It also invests heavily in research and development.
- ➡ Roughly 5 000 jobs directly involve R&D, which represented investments of nearly \$375 million in 2000.
- ➡ Québec accounts for 45% of Canada's capital spending in this sector.

#### **Aerospace**

- ➡ The Québec aerospace industry ranks sixth in the world.
- ➡ Québec has 26% of the global business aircraft market, over 40% of the commercial helicopter market and 45% of the regional aircraft market.
- ➡ Montréal is now the second largest aerospace centre in the world, after Seattle and before Toulouse. In 2000, the Québec aerospace industry invested \$0.5 billion in R&D. It provides 40 000 jobs in Québec and accounts for over 60% of Canadian aerospace exports.

Sources: E&B Data, ministère de l'Industrie et du Commerce du Québec and Institut de la statistique du Québec.

### ***Success of designated sites for new economy businesses***

The success of designated sites for new economy businesses is another illustration of the triumphant breakthrough of knowledge-based industries.

To date, 350 businesses have moved into the designated sites created under the government's economic policy.

In the past three years, these businesses have created nearly 5 000 jobs, a 75% increase over the number of jobs declared by the corporations when they decided to set up business in the designated sites, generally less than three years ago.

The fiscal measure regarding the Cité du multimédia has enabled eligible corporations to create over 3 000 new jobs. These 113 corporations have more than doubled their personnel from the 2 672 employees at the time they moved into the sites. As shown by this increase of over 118%, the results are even better than anticipated and the objective of 10 000 jobs in the Cité du multimédia will be reached in half the expected time, i.e. in 2004 rather than in 2010.

All told, these measures have made it possible to support over 11 000 jobs in new economy businesses. At that rate, these initiatives will have created or sustained an estimated 20 000 jobs and up by 2004.

**TABLE 21**  
**Job creation in designated sites**  
**Balance sheet – August 2001**

Fiscal measures	Number of businesses	Number of jobs at time of moving in	Balance sheet		%
			Number of jobs in August 2001	Number of jobs created	
CNEs	115	1 433	1 905	472	32.9
Cité du multimédia	113	2 672	5 840	3 168	118.6
CNNTQ	81	1 741	2 548	807	46.4
CDTIs	41	491	804	313	63.7
<b>Total</b>	<b>350</b>	<b>6 337</b>	<b>11 097</b>	<b>4 760</b>	<b>75.1</b>

Sources: Investissement Québec and ministère des Finances du Québec.

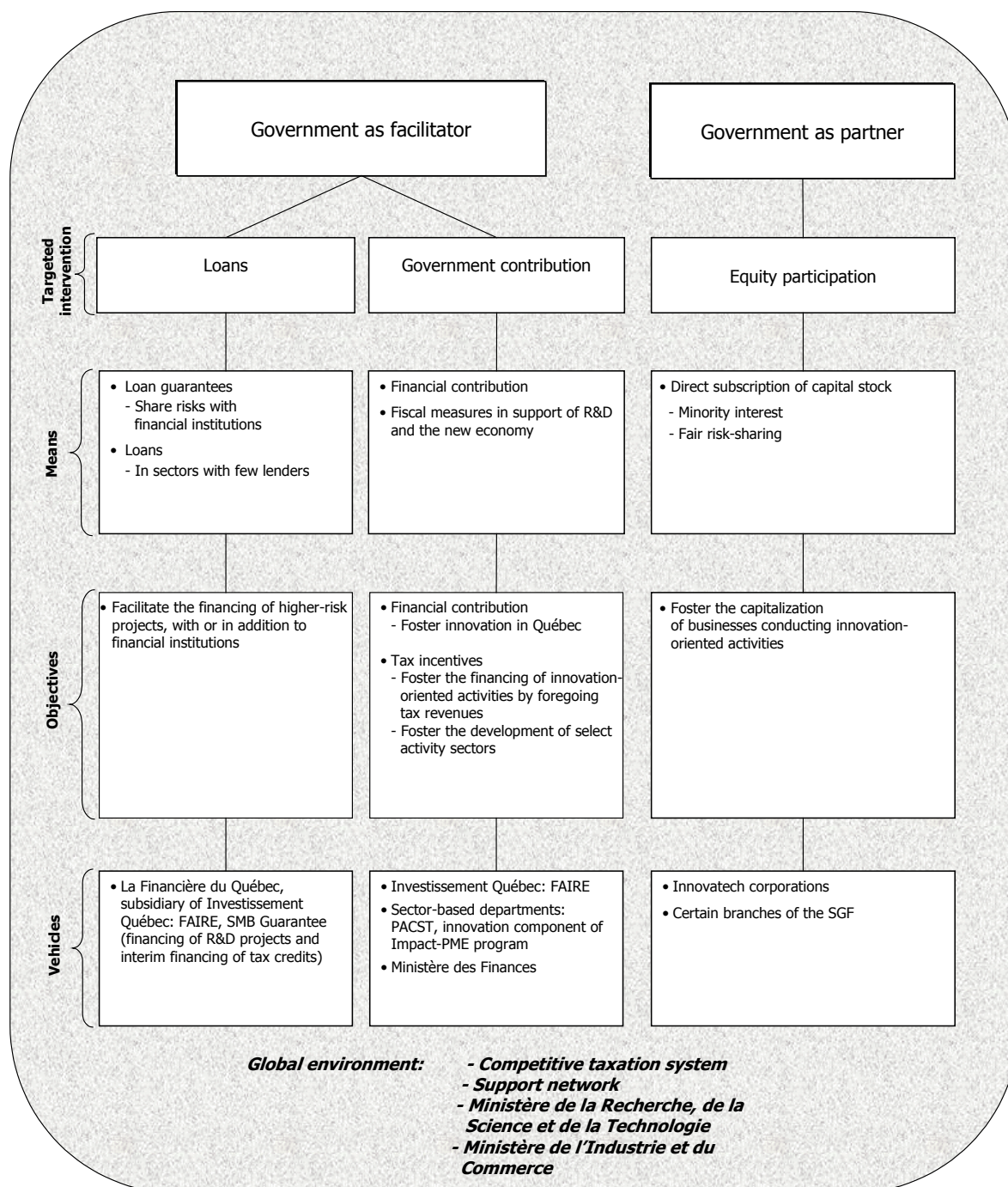
## **GOVERNMENT SUPPORT FOR BUSINESS FINANCING AND CAPITALIZATION**

As with investments in physical capital, the government provides considerable support for R&D and innovation by facilitating the efforts of businesses in obtaining financing or by playing a partnership role in their capitalization. It also supports research and innovation by offering special assistance to the network, thereby giving an impetus to business research.

The following diagram summarizes the mechanisms implemented for each of these approaches.

**DIAGRAM 3**

**Québec's financial instruments for accelerating business innovation**





***Government as facilitator***

The same as for investments in physical capital, the Québec government facilitates the financing of R&D and innovation, in two ways:

- ➡ by making loans to businesses or helping them obtain loans;
- ➡ by contributing directly to their investments.

***Loans and loan guarantees***

The same mechanisms as those discussed for bolstering investment apply here as well: the Québec government makes loans and loan guarantees, primarily through La Financière du Québec, a subsidiary of Investissement Québec.

**TABLE 22**  
**Financing programs and innovation projects, 2000-2001**

Loans and loan guarantees	Amount of financing provided (millions of \$)	Number of projects financed
FAIRE	5.9	3
SMB Guarantee	74.1	270
<b>Total</b>	<b>80.0</b>	<b>273</b>

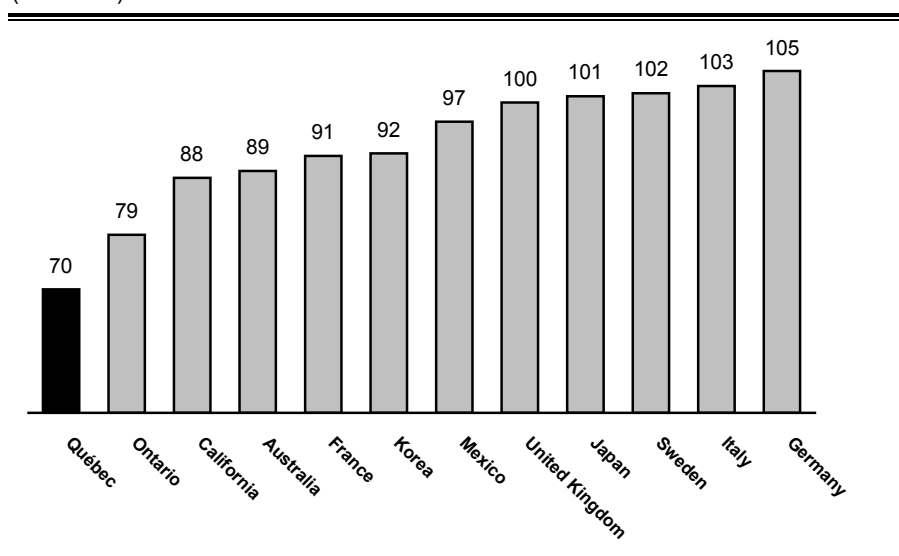
### Direct contribution

As with investments, the government also supports R&D and innovation by contributing directly to the financing of projects and activities. Although it does this primarily through fiscal measures, the government's economic policy contains budgetary measures as well.

- ➡ Fiscal measures designed to foster R&D are by far the principal form of direct contribution to businesses' research effort.

According to a Conference Board of Canada study, Québec has one of the most competitive R&D support systems in the world. In fact, it is more favourable than the systems existing in Germany, France and Japan.

**GRAPH 20**  
**R&D tax treatment, spending of \$100, competitiveness of select jurisdictions,<sup>1</sup> 1998**  
(In dollars)



<sup>1</sup> Revenue required to cover \$100 in R&D spending by a large corporation.  
Source: Conference Board of Canada.

Fiscal measures fostering R&D represent a major investment for the government: in 2000, refundable tax credits for R&D amounted to \$430 million.

- ➡ To support activities further downstream of the innovation process, the government introduced tax measures in the *1996-1997 Budget Speech* to assist businesses in the new economy. Additional measures have been established since the *1997-1998 Budget Speech* to encourage advanced-knowledge enterprises to concentrate their operations in designated sites.

Seven fiscal measures in support of the new economy have been implemented, resulting in the creation of:

- information technology development centres (CDTIs),
- the Cité du multimédia, in Montréal,
- the Centre national des nouvelles technologies de Québec (CNNTQ),
- new economy centres (CNEs) in the various regions of Québec,
- the Cité de l'optique, in Québec City,
- E-Commerce Place, in Montréal,
- the Cité de la biotechnologie et de la santé humaine du Montréal métropolitain.

The impacts some of these measures have had on business start-ups and job creation have already been discussed. As also seen, the **2002-2003 Budget Speech** introduces improvements to these measures through the extension of existing programs and changes to the E-Commerce Place program.

- ➡ Always with a view to contributing directly to business research and innovation efforts, the government's economic policy introduced a number of budgetary measures.
  - The ministère de l'Industrie et du Commerce (MIC) offers businesses financial assistance under the innovation component of the Impact-PME program.
  - The Programme d'amélioration des compétences en science et en technologie (PACST), also administered by the MIC, supports enterprises dealing with a shortage of skilled workers. Since 1997, the department has spent over \$60 million on these two programs.
  - The FAIRE program ensures further support for innovation projects.

**TABLE 23**  
**Major government contributions to innovation projects, 2000-2001**

	Total contributions (millions of \$)	Number of recipient businesses or projects
<i><b>Financial contributions</b></i>		
FAIRE	72.5	38
PACST	12.1	23
Impact-PME (innovation component)	11.3	889
<b>Sub-total: government contributions</b>	<b>95.9</b>	<b>950</b>
<i><b>Fiscal measures<sup>1</sup></b></i>		
Research and development <sup>2</sup>	429.5	4 145
New economy		
– CDTIs	25.7	92
– Cité du multimédia	25.1	73
– CNNTQ	1.9	58
– CNEs	1.5	111
– Production of multimedia titles	15.0	69
Other <sup>3</sup>	18.4	305
<b>Sub-total: fiscal measures</b>	<b>517.1</b>	<b>4 853</b>
<b>Total</b>	<b>613.0</b>	<b>5 803</b>

(1) Fiscal measures are those in effect in 2001, and calendar year 2000 is the reference for the financial impact.

(2) Includes the tax credit for scientific research and experimental development and the tax credit based on R&D spending growth.

(3) Includes E-Commerce Place, the tax credit for design, the Cité de l'optique, the Cité des biotechnologies et de la santé humaine and the Technopôle Angus.

### ***The government as partner***

The government also plays a partnership role in supporting business innovation, in the following ways.

- ➡ The four Innovatech corporations, created over the years since 1992, are mandated to foster technological progress by Québec enterprises by contributing financially to business investments, primarily in the form of venture capital.

The Innovatech corporations essentially invest in the following sectors: industrial technologies, information and communication technologies, and biotechnology and life sciences.

- ➡ Certain activities of the SGF also target innovation-intensive sectors (SGF Tech and SGF Santé).

**TABLE 24**  
**Major state equity participations in innovation projects, 2000-2001**

	Total participations (millions of \$)	Number of projects or capitalized businesses
<i>Direct subscription of capital stock</i>		
SGF Tech and SGF Santé	182.0	16
Innovatech corporations	132.0	112
<b>Total</b>	<b>314.0</b>	<b>128</b>

### ***Network support***

The economic policy provides for various instruments designed to bolster Québec's research and innovation network. These instruments also contribute to the global business environment in the R&D and innovation sector.

### **University research and grant-providing funds**

The government oversees three funds that grant money for research projects:

- ➡ The Fonds québécois de la recherche sur la société et la culture (FQRSC).
- ➡ The Fonds de la recherche en santé du Québec (FRSQ).
- ➡ The Fonds québécois de la recherche sur la nature et les technologies, which replaced the Fonds pour la formation de chercheurs et l'aide à la recherche (FCAR).

### **Ministère de la Recherche, de la Science et de la Technologie**

On the front lines of government support for innovation is the ministère de la Recherche, de la Science et de la Technologie (MRST), created in 1999. The department's mission is to promote research, science, technology and innovation by fostering synergy between the various sectoral players through the establishment of mechanisms facilitating consultation, cooperation, and integration of their respective activities.

To accomplish this mission, the MRST formulated the government policy on science and innovation entitled *Knowledge to Change the World*. The policy was released on January 25, 2001, and funding in the amount of \$250 million was announced in the *2001-2002 Budget Speech*.

The MRST implements numerous assistance programs aimed at supporting research and development, partnerships, research mentoring, technology transfer, and the dissemination and promotion of knowledge.

The action taken by the MRST is driven by four main focuses:

- research and innovation;
- scientific culture and knowledge-sharing;
- the future workforce in science and technology;
- developmental projects.

To encourage research and innovation, the MRST supports research granting agencies, fosters concerted research efforts and works with partners involved in innovation-intensive sectors.

As regards scientific culture, the MRST, in conjunction with its partners, promotes the dissemination of scientific works in non-scientific language, and seeks to get young people in particular and the public in general more interested in science and careers in science.

To ensure a new generation of science and technology workers, the MRST promotes science and technology careers through education, mentoring, information and support strategies. It also sees to the renewal of university scientists through its grant-providing funds.

Lastly, the MRST supports developmental projects through the sharing of its expertise as well as through its services, issue tables and programs.



### *Additional network support*

The government has created other instruments as well to support research and innovation in the global business environment.

- ➡ Several of these instruments are administered by the ministère de l'Industrie et du Commerce (MIC), whose mission is to contribute to Québec's economic development by enhancing market development and company competitiveness with a view to encouraging job creation.
- ➡ The creation of Innovation Québec was announced in the *1999-2000 Budget Speech*. Its purpose is to maintain a world-class scientific research base in Québec.
- ➡ Valorisation-Recherche Québec is a non-profit organization that contributes financially to projects developed by university research groups and to the commercialization of the resulting products.
- ➡ The Centre de recherche industrielle du Québec (CRIQ) stimulates the development of Québec enterprises by shouldering them in their innovation efforts.
- ➡ Several research centres are directly or indirectly financed by the Québec government.
- ➡ The government has created 30 or so liaison and transfer centres to ensure business-university interaction and the transfer of technologies to the regions and activity sectors.

#### **Building tomorrow's businesses today**

The government strategy for making Québec businesses more competitive was released on September 28, 2001. Entitled "Bâtir aujourd'hui l'entreprise de demain" (Building tomorrow's businesses today), the strategy has been allocated up to \$83.5 million over three years. It targets the adoption of more-successful business practices by 2 500 Québec enterprises by 2005 to make them more competitive. The strategy is being implemented by the MIC in close cooperation with Emploi-Québec.

Analysis of two of the economic policy's focuses, namely, increased investment and heightened research and innovation, highlighted the thinking behind the government's actions and determined the principal instruments for achieving the goals of those actions.

We will now take a look at those actions and identify the resources allocated to the economic policy's implementation.