

**2006-2007 Budget
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2006-2007 Budget Speech

Targeting sustainable economic development

“Quebecers have an environmental awareness that bodes well for the future. We believe that we can do more to leave future generations an environment that will foster prosperity. That is why we are taking action today in regard to forest renewal, agriculture and greenhouse gas reduction.”

- Michel Audet

Québec, March 23, 2006 – In the 2006-2007 Budget Speech, Finance Minister Michel Audet said that the government had placed wealth creation at the centre of its ambitions. “The action we have taken has borne fruit. The Québec economy is doing well,” he stated, adding that economic activity grew by 2.2% in real terms in 2005 and should expand by 2.5% in 2006, that export recovery has continued and that the labour market trend has been favourable, with the lowest unemployment rate since 1975.

“Despite today's major economic constraints, such as the higher Canadian dollar, the rise in oil prices, the softwood lumber dispute and growing competition from emerging economies, the results we have obtained demonstrate the merits of the principles of economic development and sustainable development endorsed by our government,” the Minister of Finance affirmed.

For responsible forest management

If there is one major sector in Québec where sustainable development and economic development must coexist harmoniously, it is surely the forest sector,” said Mr. Audet. “Our forests are a remarkable source of wealth. But they are a resource in urgent need of renewal,” he explained.

Already in the last budget, \$167 million in support measures for the forest sector were announced. To continue to support the workers, regions and forest industry, the 2006-2007 Budget is announcing additional funds of \$925 million over four years, for a total of \$1.1 billion.

These additional funds, which will help Québec businesses to become even more competitive, include:

- a \$425-million loan envelope made available to forest companies through Investissement Québec to support and accelerate the modernization of these companies;
- a budget of \$210 million for the implementation of silvicultural investment measures and measures to reduce the cost of operations;
- an investment of \$44 million to provide support specifically to forest sector workers;
- an increase, from 5% to 15%, of the rate of the capital tax credit on investments in manufacturing and processing equipment for primary wood processing companies;
- a refundable tax credit for the construction and major repair of forest access roads and bridges;
- an income averaging measure for private woodlot owners so that they can defer the taxation of income from the sale of wood.

“These initiatives will contribute to assisting the workers, regions and companies while they go through a transition period,” the Minister of Finance stressed.

Public transit: a choice that contributes to greenhouse gas reduction

Since climate change is a major sustainable development issue and transportation alone contributes to almost 40% of greenhouse gas emissions in Québec, the Minister of Finance declared that “to prioritize public transit is to engage in sustainable development.”

Therefore, Mr. Audet announced that \$1.5 billion will be allocated over the next three years to maintaining and renewing public transit infrastructure and equipment. Priority projects include:

- renovation of Montréal's metro stations and replacement of the metro cars;
- development of a new, northeastern commuter train service in Montréal;
- establishment of maintenance facilities for the Réseau de transport de la Capitale.

Two measures to promote public transit use have also been announced in the 2006-2007 Budget:

- full reimbursement of the fuel tax for public carriers;
- introduction of a tax incentive for businesses that defray all or part of the cost of their employees' transit passes, and non-taxation of the resulting benefit for employees.

Since hybrid vehicles have considerable potential for reducing greenhouse gases, the 2006-2007 Budget is introducing a refund, of up to \$1 000, of the QST paid on the purchase of the most fuel-efficient hybrid vehicles.

“Sustainable development is the business of every Quebecer. It is the business of the government, which introduces fiscal measures, of businesses, which are encouraged to act on them, and of Quebecers, who are called on to change their habits. Sustainable development is a shared responsibility,” declared the Finance Minister.

Enhancing the competitiveness of the economy by targeting innovation

The 2006-2007 Budget is also focusing on the competitiveness of Québec's economy through measures to spur innovation and investments.

“The State plays a leading role in creating conditions to facilitate and accelerate the launching of economic projects that generate wealth and jobs. The government's sustainable economic development strategy presented in October 2005 sets forth how the government intends to proceed. We have already taken concrete steps. The reform of corporate taxation announced in the last budget creates a fiscal environment more conducive to investment,” stated Mr. Audet.

The tax rate of SMEs was already reduced from 8.9% to 8.5% on January 1, 2006. The 2006-2007 Budget is announcing an additional reduction in the SME tax rate, to 8% on March 24, 2006.

As well, the tax treatment of dividends will be brought into line with that of the federal government announced last fall.

The government also intends to further spur innovation, one of the main thrusts of its economic development strategy.

Accordingly, the 2006-2007 Budget Speech is providing \$75 million in assistance over three years for innovation and R&D activities, particularly:

- to capitalize on university research in order to maximize its economic benefits;
- to support certain R&D organizations, such as Génome Québec and the Institut national d'optique;
- to improve R&D incentives for businesses.

Lastly, since venture capital is a top-notch financial lever for businesses that innovate and break new ground in achieving prosperity, and substantial risk is involved in such investments, the 2006-2007 Budget is increasing the annual amount that Capital régional et coopératif Desjardins is authorized to raise, from \$100 million to \$150 million.

“These funds will subsequently be invested in Québec businesses, particularly in the resource regions and in cooperatives. This measure will foster the development of high-performance companies throughout Québec,” declared the Finance Minister.

- 30 -

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