

INVEST IN A WINNING MANUFACTURING SECTOR

Action plan to support the
Québec manufacturing sector



Summary

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Ministère du Développement économique,
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www.mdeie.gouv.qc.ca – info@mdeie.gouv.qc.ca

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Respond to events and clear the way for tomorrow

The manufacturing sector is vital to the Québec economy. In all regions it produces wealth and provides well-paid jobs. It generates the bulk of our exports and has a strong ripple effect on the other sectors of our economy.

Already in full flux, the manufacturing sector is feeling the effects of rapidly changing economic conditions, including the fast-rising dollar. The operating support and leverage it now enjoys must be strengthened. We cannot simply wait out current difficulties; we must face them head on in order to come out stronger.

This action plan provides additional support from the Québec government to help manufacturing businesses respond immediately to the burden of the stronger Canadian dollar and invest for the future.

By taking action on the productivity and investment fronts, this plan aims further than the short term. The new measures it suggests strengthen government support for a manufacturing sector development strategy based on productivity, innovation, a skilled workforce, and sustainable development.

The manufacturing sector is a key driver of the Québec economy, employment, and regional growth.

The manufacturing sector employs one in six people in Québec.

It accounts for over 19% of economic activity—nine times more than primary industry.

In 2006, over 91% of goods exported from Québec came from the manufacturing sector.

In 2004, manufacturing businesses were responsible for nearly 55% of industrial research and development spending in Québec.

This action plan is also a mobilization plan. It draws on the leadership, ideas, and commitment of those who built and sustain our manufacturing businesses, thereby contributing to our collective wealth.

Stronger ongoing government support

The Québec government has renewed its overall vision of economic development in all Québec regions.

- ▶ Many of its initiatives have had a major impact on the manufacturing sector:
 - Elimination of the capital tax
 - The Québec Research and Innovation Strategy
 - Implementation of sectoral strategies to promote the forest, aerospace, and clothing/fashion industries
- ▶ Together, these initiatives total close to \$4 billion for 2005–2006 to 2011–2012.
- ▶ The action plan to promote the manufacturing sector supplements the tools already available to help businesses meet the challenges of modernization and productivity.
- ▶ These tools will clearly be maintained, with a number of them being adjusted and strengthened in order to face current difficulties head on, particularly with respect to the rapidly rising dollar.

In 2006–2007 alone, manufacturing enterprises shared 65% of budget support to all businesses and 31% of government tax assistance measures for businesses. Support totaled nearly \$900 million.



→ Action plan initiatives

Two main objectives

First objective

Invest to counter the negative impact of the rising dollar and boost employment and exports

1. By stimulating private investment
2. By helping businesses increase their market share

Second objective

Invest to ensure that the manufacturing sector is in better control of its future:

1. By taking better advantage of research and innovation
2. By building on a qualified workforce
3. By stressing sustainable development

Decisive action with an immediate impact and a long term perspective

The manufacturing sector must face two types of challenges.

First, it must deal with structural issues tied to factors such as globalization and trade, as well as the introduction of new economic players. How? By adopting best business practices and modernizing production facilities to improve productivity, stepping up research and innovation in order to offer new products, joining forces in specific niches, and ensuring state-of-the-art technical training for workers. Many Québec businesses are already pursuing these modernization strategies, which are better adapted to the new global environment.

Second, factors such as the rising dollar and skyrocketing oil prices have complicated this transformation. The financial impact of these cyclical factors has created cash flow problems, impaired businesses' investment projects, and slowed modernization or development strategies. It has also increased production costs for businesses, reducing their ability to sell their products abroad.

This action plan addresses these two types of factors head on:

- ▶ **The government is making \$440 million in direct funding available to the Québec manufacturing sector over the next four years.**
- ▶ **This investment is piggybacked on new tax expenditures totaling \$178 million.**
- ▶ **The government will also contribute \$25 million to a venture capital fund for clean technologies.**

To spur short-term investment, a further \$500 million will be made available to improve the cash flows of businesses.

These initiatives will create a more vibrant and competitive Québec manufacturing sector and help ensure the prosperity of all Québec regions.

FIRST OBJECTIVE

Invest to counter the negative impact of the rising dollar and boost employment and exports

A rapidly rising dollar and skyrocketing oil prices, combined with the arrival of new competitors, have considerably reduced the financial flexibility of Québec manufacturing businesses and slowed economic activity in the sector.

Although progress has been made, Québec's manufacturing sector is still behind its immediate neighbors in terms of productivity. Québec manufacturing businesses must make this a priority by increasing their investment, particularly in machines and equipment.

International Québec manufacturing sector exports have been lagging. We must do our utmost to increase our presence in foreign markets.

We must respond to the rising dollar by increasing productivity. Investment is the key to the productivity and competitiveness of manufacturing businesses. If we want to boost employment and exports, this is where to start.

1. Spur private investment

Government intervention is aimed at improving short-term cash flows, reducing project costs, and providing heightened financial support for projects.

Improve measures for manufacturers to spur investment

- ▶ Payment by manufacturing firms of income tax installments and capital tax will be suspended for one year.
- ▶ The capital tax credit for manufacturers will be raised from 10% to 15%.
- ▶ Businesses in the regions with the greatest job losses will receive an extra \$15 million in assistance.
- ▶ More financing will be made available to the manufacturing sector through tax-sheltered funds.

Involve support networks and industry leaders

- ▶ Businesses have access to productivity advice from teams of experts (\$51 million over 5 years).
- ▶ A new network of angel investors will support entrepreneurs.
- ▶ Manufacturing networks headed up by industry leaders will be created or strengthened (\$3.5 million).
- ▶ Quebec subsidiaries of foreign businesses will get more help landing worldwide mandates.



2. Help businesses capture greater world market share

The government will provide more world market share leverage to manufacturers. The goal is to bring new products to market faster, shore up businesses in their traditional NAFTA markets and in certain European countries, and take advantage of new business opportunities that arise, particularly in emerging markets.

Be faster at making the first sale

- ▶ Two innovative techniques—technical validation and technology showcases—will help businesses market the products they develop and make their first sales (an additional \$7 million).

Enter foreign markets then establish a base there

- ▶ Businesses (mainly SMEs) will receive \$25 million in aid to undertake or consolidate development outside Québec. These new monies will serve for a variety of purposes and cover the full range of business development stages in foreign markets.
- ▶ Business access to foreign markets will be broadened, particularly through planned agreements with Ontario and the European Union.

Maximize spinoffs from government buying

- ▶ The government will use any and all flexibility it has under intergovernmental agreements and existing laws and regulations to maximize spinoffs to Québec manufacturers from Québec government purchases.



SECOND OBJECTIVE

Invest for a better tomorrow

Many companies have understood that the only way to compete against emerging economies and their low-cost labor is to boost productivity and offer innovative and well-made products that meet the new demands of consumers.

Three strategies seek to achieve this: making research and innovation an integral part of the production and management process, having a qualified workforce, and guaranteeing that products and production modes address consumers' growing concerns over the environment.

The modernization and transformation of Québec manufacturing is well underway. The challenge now is to help manufacturers stay the course—or get started if they have not already begun.

1. Call more on research and innovation

In today's new business environment, successful manufacturing firms will be those that are adept at harnessing innovation –technological, organizational, and/or social– to boost productivity.

Greater leverage for bringing innovation to all areas of a business's operations

- ▶ Businesses will have five new college technology transfer centers (CCTTs) in addition to the existing 35 to help them with production and organizational innovation (\$4 million).
- ▶ CRIQ's mission will be updated and refocused exclusively on manufacturers.

2. Build on a qualified workforce

The manufacturing sector presents a job paradox: certain industries will suffer heavy job losses while others will have trouble recruiting qualified personnel. The Government of Québec will step up efforts to provide manufacturers with access to sufficient numbers of qualified workers who are at ease with state-of-the-art technologies and able to adapt to new work procedures.

Ensure that workers are well trained and solve the shortage of workers

- ▶ Worker skills training will be facilitated through a worker training tax credit for manufacturing firms (\$30 million in all).
- ▶ An extra \$8 million will be earmarked to help recruit workers in research and innovation.
- ▶ Recruitment outside Québec will be facilitated through qualification recognition agreements, in particular with France.

3. Stress sustainable development

Heightened concern for the environment and sustainable development has given rise to new regulations and standards in jurisdictions all over the world. These new requirements force manufacturers to adopt new, more energy efficient manufacturing processes that pollute less and make better use of resources while also taking more and more social concerns into consideration. The faster Québec companies adjust to this trend, the stronger their position will be in the face of the competition, both at home and abroad.

Greener manufacturing

- ▶ The government will invest \$25 million in a clean technologies venture capital fund created with the participation of private partners (overall target of \$100 million in capital).
- ▶ Businesses will have \$10 million at their disposal to introduce cleaner, more energy efficient technologies.
- ▶ Business people can attend training sessions on the CO₂ market and on making ecological considerations part of their product design process.

A challenge to one and all

Reinvigorating Québec's manufacturing sector will only be possible with the involvement and assistance of all concerned. Québec, like a number of other countries and industrial regions, has therefore agreed with its partners to set up a manufacturers council.

The council will be cochaired by a manufacturing executive and the Minister of Economic Development, Innovation and Export Trade. It will comprise other executives from the manufacturing sector, including heads of branch offices of foreign firms, as well as representatives of manufacturer associations and worker organizations. The council office will be run by Ministère du Développement économique, de l'Innovation et de l'Exportation.

The council's primary mission will be to educate the business community about the vital importance of the manufacturing sector and strengthen the industry's image, inform manufacturers about government programs, share strategic information and put forward solutions to the sector's most pressing problems.

The Government of Québec wishes to make the manufacturers council the spearhead in efforts to involve the entire community in reinvigorating and growing the manufacturing sector and ensuring implementation of this action plan.

Appendix 1

2007-2012 Manufacturing Sector Action Plan

(millions of dollars)

	New	Total
Budget Measures		
Investment project assistance (PASI and PSPE)	56.0	316.0 ¹
Access to productivity experts	44.0	44.0
Establishment of Québec Angel Network	0.5	0.5
Strengthening of manufacturer networks	3.9	3.9
Strengthening of technology showcase programs	7.0	25.0
Strengthening of international component of the Corporate Assistance Program	25.0	25.0
New CCTTs	4.0	4.0
Increased support for employment in research and innovation	8.0	9.4
Support for cleaner, more efficient energy	10.0	10.0
Introduction of new sustainable development business practices	3.3	3.3
Manufacturers council	1.5	1.5
Subtotal	163.2 ²	442.6
Tax Measures		
Capital tax credit increase from 10% to 15%	30.0	30.0
Increased investment through Capital régional et coopératif Desjardins and Fonds de solidarité des travailleurs du Québec	28.0	28.0
New 30% refundable income tax credit for manufacturer workforce training	120.0	120.0
Subtotal	178.0	178.0
Tax and Budget Measures Total	341.2	620.6
Improved Cash Flows in 2008		
One-year suspension of income tax and capital tax installments by manufacturing firms	500.0	500.0
Investments, Loans, and Advances		
Clean technologies venture capital fund	25.0	25.0

1. Includes \$260 million earmarked for PASI for the 2008-2012 period.

2. Combined cost of new measures, and commitments to manufacturing sector in last budget.



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