

GREATER PROSPERITY FOR THE REGIONS



Prebudget consultations | 2007-2008

Québec 

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Finances

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MESSAGE FROM THE MINISTER OF FINANCE

Since 2003, our government has acted to help Québec's economy achieve its full potential. As part of the 2006-2007 Budget we focused particularly on the problem of Québec's public debt.

Given the significance of this issue, we decided to make it the theme of the last prebudget consultations. This initiative produced results; it gave rise to the creation of the Generations Fund, which will contribute greatly to improving Québec's situation.

This year the government wants to concentrate on the prosperity of all of Québec's regions. We have already taken steps in this direction. Thanks to our action, the regions now have significant intervention levers and more resources to chart their future and assume their rightful leadership role.

We want to continue in this direction. That is why the government is holding this year's prebudget consultations on the theme of the prosperity of the regions. The next budget will reflect the ideas that will be discussed over the coming weeks.

The regions face different challenges that vary in intensity. The resource regions, central regions and large cities are faced with very different development dynamics requiring different means and solutions. On the other hand, each region has its own strengths that it can draw on to develop its economy and create wealth. The government, in dealing with this situation, has acted on a number of fronts to:

- enable the regions to take charge of their development;
- provide the regions with the economic instruments they need for their development;
- ensure that the regions have quality public infrastructures.

In practical terms, that has enabled us, for instance, to set up Regional Elective Councils (CREs) and regional economic intervention funds (FIER). We have invested close to \$1.4 billion to support regions affected by the difficulties of the forest industry.

We have also offered a special tax credit to encourage young people to return to the regions. To date, more than 32,000 young people have benefited from this measure to return to their home community. We launched up new energy strategy representing investment of \$25 billion over the next ten years in hydro-electricity and investment of \$6 billion in wind power, projects that will create 70,000 jobs in Québec's regions.

Our action has already helped to improve the economic situation, as indicated by the lowest unemployment rate since 1975.

There is more work to do, however. Despite a tight financial framework, we continue to work with our regional and local partners to find the best ways to encourage greater wealth creation in the regions. I hope that these prebudget consultations will allow you to add to our thinking in this regard, and I ask for your suggestions. We will pay particular attention to them and they will be reflected in our action.

A handwritten signature in black ink, reading "Michel Audet". The signature is written in a cursive style with a large, stylized 'M' and 'A'.

Michel Audet

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INTRODUCTION

Since 2003, the development of Québec's regions has been central to the government's concerns.

In the fall of 2003 the government tabled draft legislation in the National Assembly on the Ministère du Développement économique et régional that gives municipal elected officials the means to take charge of the development of their region by creating Regional Elective Councils (CREs) and transferring Local Development Centres to the regional county municipalities (RCMs).

In the fall of 2004, at the Forum des générations, the Premier of Québec, Jean Charest, signed two memoranda of understanding on decentralization and regionalization: the first with the Fédération québécoise des municipalités and the Union des municipalités du Québec and the second with the chairpersons of the CREs.

Since then the government has continued to take concrete steps to encourage the development and autonomy of the municipalities and the regions. In particular, a 2007-2013 Agreement on a new fiscal and financial partnership with the municipalities was concluded and a new Policy on Rurality was adopted in the fall of 2006.

The government is committed to continuing in this direction and will unveil a new policy for the development of the territories next spring.

From this standpoint, making the prosperity of the regions the focal point of the prebudget consultations will provide regional and local partners with the opportunity to make a special contribution to the final phases of the government's reflection.

To get the discussion started on common bases and take stock of what has been accomplished to date, this document:

- reviews the progress made in economic terms and the government's major initiatives to encourage economic growth and wealth creation;
- presents the government's vision to ensure prosperity for all the regions by describing the steps already taken, their results and their impact for the future.

ECONOMIC DEVELOPMENT ENCOURAGED BY GOVERNMENT ACTION

For almost four years the Québec government has acted to help Québec's economy achieve its full potential. The Government has focused on rigorous and transparent management of public finances, thus allowing investment in Quebecers' chief priorities, i.e. health and education, lowering personal and corporate taxes, reducing the debt load, improving infrastructures and measures to stimulate investment. The government has acted to encourage the prosperity of all Quebecers in every region of Québec.

Today, Québec's economy is in good shape. The government's action has contributed to economic growth and Québec is better prepared to face future challenges.

We know about these challenges. Our economy faces a competitive international environment and the pressures on public finances require us to show constant vigilance.

Much progress has been made since 2003, and the financial markets have recognized it. Even though much still remains to be done, the Government's action will allow Québec to meet the challenges ahead under better conditions.

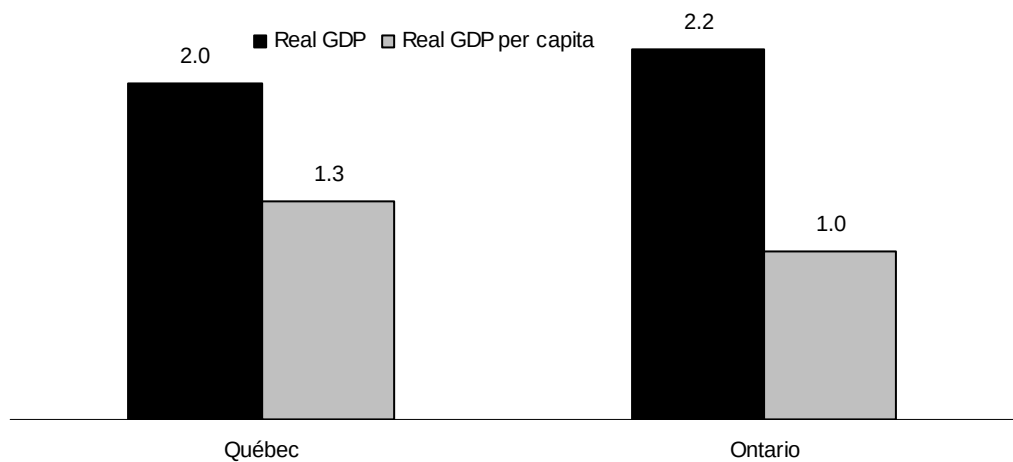
The Québec economy is doing well

Québec has experienced interesting economic growth since 2003. In fact, real economic growth has averaged 2.0% per year, a progression comparable to the rate observed over the past 20 years.

- Québec's economic growth has been comparable to Ontario's. It has been even more vigorous if we account for the demographics more favourable to economic growth from which Ontario benefits.

GRAPH 1

Québec economic performance comparable to Ontario (percentage growth, 2003-2006 average*)



* Estimate.

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

This good economic performance by Québec has been accomplished despite a difficult international context, characterized by the high price of oil, rapid and substantial appreciation of the Canadian dollar, a slowdown in American demand and the trade dispute regarding softwood lumber, as well as increasingly strong international competition.

If the Québec economy is doing well, this is due to the strong growth of domestic demand. In particular, household demand and business investment have remained high since 2003, thus sustaining employment.

❑ A competitive international environment

Québec is wide open to the world, exporting over 50% of its production, and is now facing a difficult international context.

In particular, the Canadian dollar appreciated strongly between 2002 and 2006, rising from 63.7 to 88.2 cents US. Our industries geared to foreign trade thus lost a key competitive advantage and had to operate in this new environment, which became much more competitive.

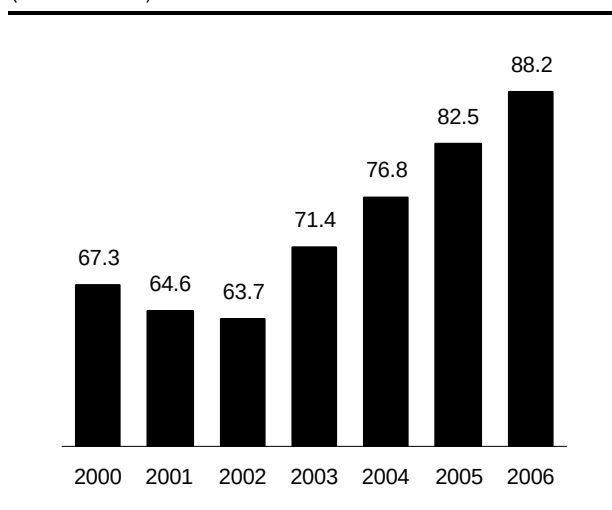
Québec, like all other industrialized economies, has also had to adjust to the new international situation in the past few years. On the one hand, market globalization and liberalization of trade have accelerated in recent years, leading to strong growth of international trade. On the other hand, the relocation of production to certain regions of the globe has continued.

Added to this is the emergence of new economic powers like China and India, whose economies are characterized by access to cheap labour, and whose companies increasingly compete with Québec companies, both in Québec and in their export markets, particularly the American market.

GRAPH 2

Strong rise of the Canadian dollar since 2003

(in US cents)

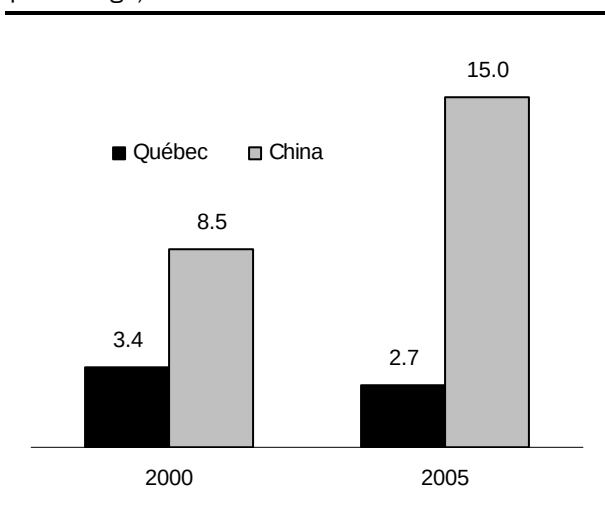


Source: Bank of Canada.

GRAPH 3

China's presence in the American market has doubled since 2000

(American market shares for Québec and China, in percentage)



Source: World Trade Organization

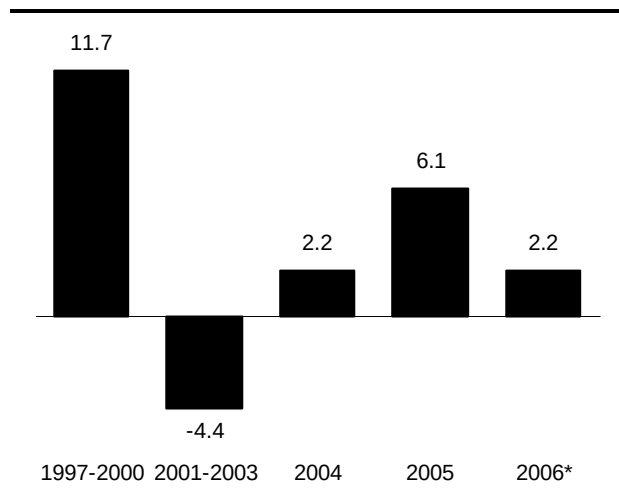
Although international exports of Québec goods grew by an average of nearly 12% in the late 1990s, the difficult international context of the past few years has helped reduce this growth by three fourths.

Exports even fell between 2001 and 2003, mainly due to the bursting of the technology bubble, the American recession and the tragic events of September 11 2001. Since then, despite the difficult international context, exports have returned to an upward path.

- International exports of goods have grown an average of 3.5% since 2004.
- This export growth has occurred in high value-added sectors, such as machinery and office equipment.

GRAPH 4

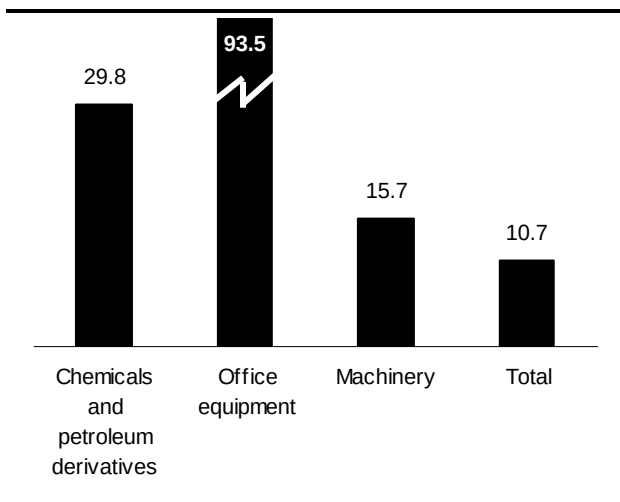
International exports of goods
(annual percentage growth)



* Estimate.
Source: Institut de la statistique du Québec

GRAPH 5

Principal value-added exports
(cumulative percentage variation, 2003-2006*)



* Estimate.
Source: World Trade Organization.

❑ Vigorous domestic demand

Despite the difficulties of the foreign sector, household demand has remained strong, as confirmed by the vigorous Québec economy. For example, growth of consumer spending reached 3.3% in real terms in 2005, one of the strongest growth rates of the past six years.

This growth is particularly due to the tax reductions granted by the Government over the past three years. The Government's disbursement of pay equity in 2007 will favour household consumption even more.

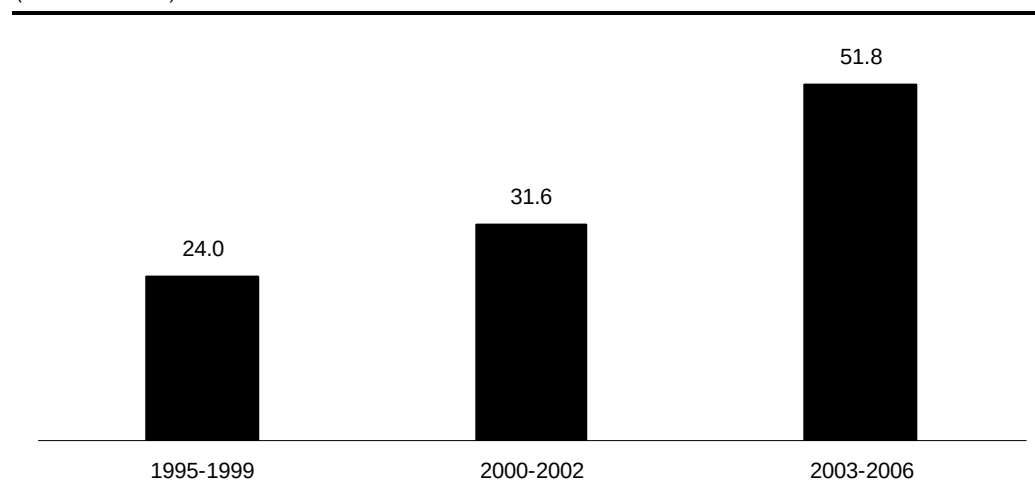
The number of new housing starts has remained high for the past four years.

- On average, since 2003, construction has begun on 51,800 units a year; this is a level far higher than the one observed in the 1990s, when there were less than 24,000 annual housing starts.

GRAPH 6

Housing starts

(in thousands)



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

❑ Growing non-residential investments

Québec companies have also benefited from a favourable economic climate to increase their investments. The Government of Québec's reduction of the tax on capital has fostered these investments.

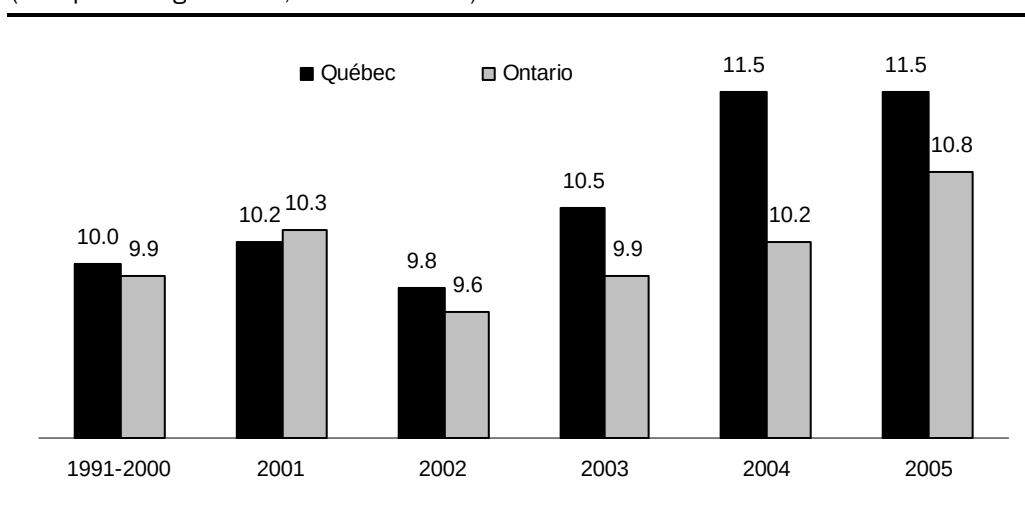
High profits and the strong Canadian dollar, which favours purchases of machinery and equipment, two thirds of which are imported, have encouraged these efforts.

- From 2003 to 2005 non-residential business investment rose by a total of 24.4% in Québec, slightly higher than the Ontario rate (21.1%).
- In the past four years companies have stepped up their investment efforts. In 2005 non-residential investments as a share of the GDP rose more than one percentage point compared to 2002 (11.5% in 2005 compared to 9.8% in 2002). This accounted for a bigger share than in Ontario, where the equivalent figures stood at 10.8% in 2005 and 9.6% in 2002.

GRAPH 7

Business investments

(as a percentage of GDP, in 1997 dollars)



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

❑ A dynamic labour market

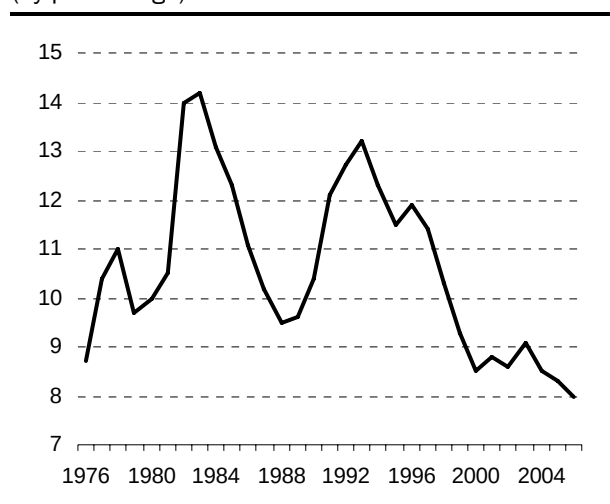
Employment growth has also remained robust despite the pressures on the manufacturing sector. 168,200 jobs have been created in Québec since January 2003. This brought the unemployment rate to an average of 8% in 2006, the lowest level in over 30 years.

— The unemployment rate even fell to 7.5% in December 2006.

What is more, never in Québec's history has such a high proportion of the population held a job. For the third consecutive year the employment rate is over 60%, a record.

GRAPH 8

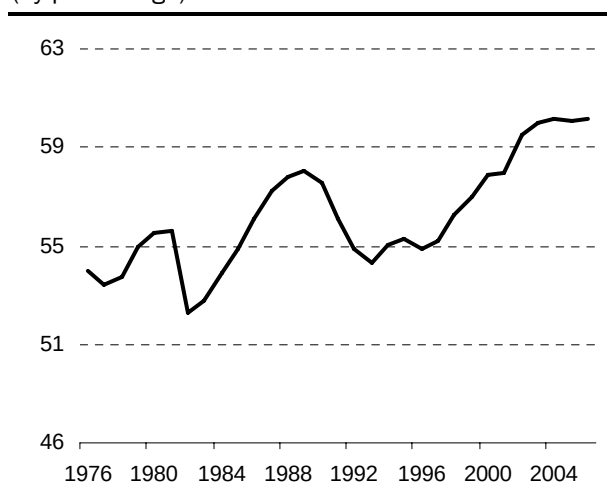
Québec unemployment rate (by percentage)



Source: Institut de la statistique du Québec.

GRAPH 9

Québec employment rate (by percentage)



Source: Institut de la statistique du Québec.

The Government's actions have contributed to economic growth

Thanks to the efforts of workers and businesses, the Québec economy is doing well. The Government's actions have supported these efforts.

Since 2003 the Government of Québec has concentrated its action along certain lines, which have all contributed to promote Québec's economic development.

□ Budgetary strictness

Sound public finances make it possible to maintain a competitive tax burden and ensure the quality and sustainability of public services. They are evidence of stability for both individuals and businesses, as well as encouraging economic growth.

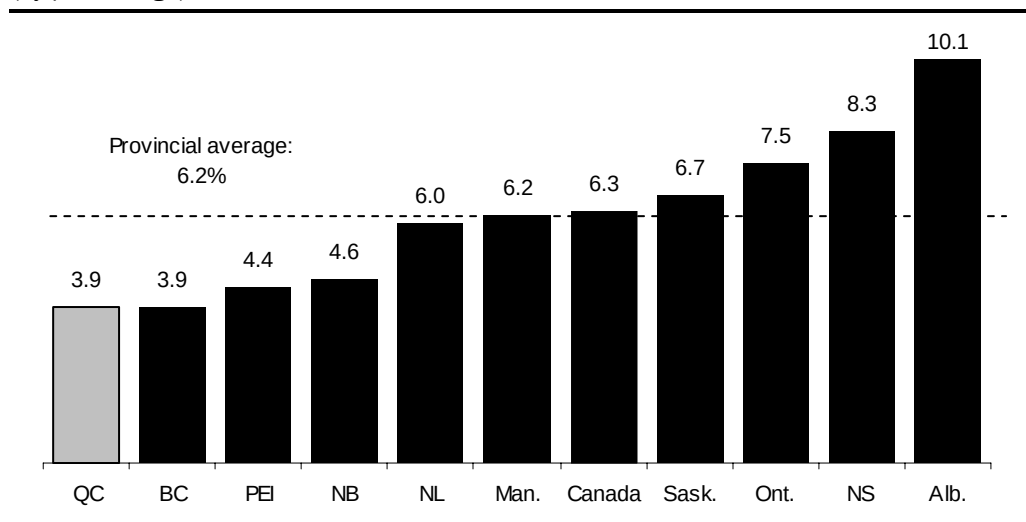
Since April 2003, excluding the impact of the exceptional losses incurred by Société générale de financement du Québec (SGF) under the previous government and the need to fund pay equity, the budgetary balance has been maintained.

Rigorous spending management has led to balanced budgets. Over the past four years Québec, along with British Columbia, has shown the lowest expenditure growth in Canada.

- From 2003-2004 to 2006-2007, the average annual growth of program spending in Québec was 3.9%, whereas the Canadian provincial average reached 6.2%.
- Average annual spending growth in Québec during the same period was below the nominal GDP growth rate (4.3 %).
 - Despite increased investments in health and education, government expenditures currently account for 17.8% of GDP, their lowest level in 35 years. This level represents a decrease of 5.4 percentage points from the peak in 1983-1984.

GRAPH 10

Growth of program spending between 2003-2004 and 2006-2007 (by percentage)



Source: Ministère des Finances du Québec.

This rigorous spending management has allowed the Government to invest specifically in Quebecers' priorities – health and education. Between 2003-2004 and 2006-2007 health care expenditures grew by 5.5% and education expenditures by 3.5%.

This strict management also depends on tight control of public service staff levels and a decrease in government operating costs. These measures allowed the Government to save a total of \$1.1 billion from 2004-2005 to 2006-2007.

Moreover, the pay equity issue has been settled to the benefit of more than 360,000 public and parapublic sector employees. On their first pay for 2007, public service employees received the first adjustments pursuant to the settlement of the pay equity issue. These amounts are based on the agreement signed with the union organizations in June 2006, ten years after the adoption of the *Pay Equity Act*, which entrenches gender equality.

❑ Reducing the debt load

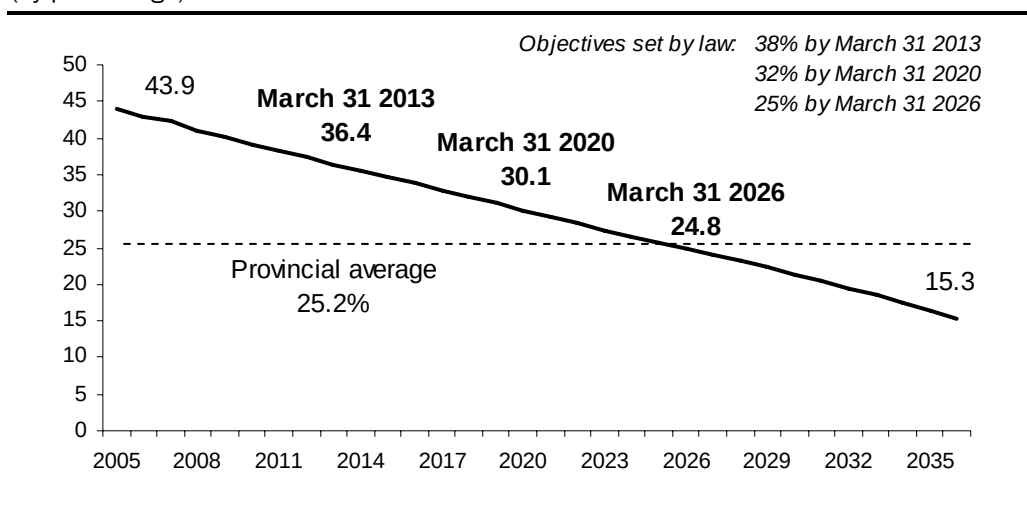
The Government also had to put an end to a situation that was making Québec the most indebted province. Tackling the debt's burden on the economy had become imperative, especially since it had largely been used to fund current spending. The Minister of Finance therefore announced the establishment of the Generations Fund in the last budget.

Exclusively dedicated to debt repayment, the Generations Fund is funded by specific revenue sources, which were established without increasing the burden on taxpayers. Creation of the Generations Fund will reduce the debt load to below 25% of GDP by March 31, 2026.

- Given the \$500 million in additional funding announced at the end of October following the sale of Hydro-Québec's interest in Transelec Chile, over \$32 billion will have been accumulated in the Generations Fund by March 31, 2026.

GRAPH 11

The Generations Fund will allow a significant reduction of the debt load
(by percentage)



Source: Ministère des Finances du Québec.

□ Reduction of the personal and corporate tax burden

Reduction of the personal tax burden promotes economic growth. In fact, a competitive tax burden:

- increases the incentive to work and encourages retention of qualified people;
- stimulates savings and consequently investment;
- encourages people to obtain further training.

Making the tax burden more competitive also leads to an increase in disposable household income.

Since 2003 the personal tax burden in Québec was reduced by \$3.1 billion, including \$808 million in tax relief since January 1, 2007. The gap between the Québec tax burden and the Canadian average narrowed by more than half in relation to personal income tax this year.

- In 2003 there was an average \$2.2 billion tax burden gap in relation to other provinces.
- In 2007 this gap will narrow to \$980 million, down 55%. The Québec taxpayer will therefore pay on the average only \$269 more in tax than taxpayers of other provinces.

TABLE 1

Personal income tax – tax burden gap between Québec and the other provinces by applying the tax structure of other provinces to Québec⁽¹⁾

	2003		2007 ⁽²⁾	
	(millions of \$)	(\$ per taxpayer)	(millions of \$)	(\$ per taxpayer)
GAP BETWEEN QUÉBEC AND OTHER PROVINCES ⁽³⁾				
Ontario	5,627	1,545	3,502	962
Alberta	4,433	1,217	3,303	907
British Columbia	3,538	972	3,184	874
Saskatchewan	2,234	613	1,292	355
New Brunswick	1,526	419	462	127
Manitoba	937	257	54	15
Nova Scotia	689	189	– 338	– 93
Prince Edward Island	1,099	302	– 425	– 117
Newfoundland and Labrador	– 677	– 186	– 2,218	– 609
AVERAGE GAP	2,156	592	980	269

(1) Including health contributions and family assistance measures (for example, family allowances and refundable tax credits).

(2) Including the Québec 2006-2007 Budget measures and those of the budgets presented by the other provinces as of March 10, 2006, namely British Columbia and Manitoba.

(3) The 16.5% Québec abatement is subtracted from the tax burden gap.

Source: Ministère des Finances du Québec.

While maintaining a balanced budget, the Government's objective is always to ensure that the tax burden of Quebecers is in line with the Canadian average.

Major efforts have also been dedicated to improving the efficiency and competitiveness of the corporate tax system and thus foster investment and job creation. The measures instituted will eventually lead to an annual reduction of the corporate tax burden by nearly \$500 million.

- The over 50% reduction of the tax on capital by 2009 will bring it down to a more competitive level in relation to the other Canadian provinces.
- The establishment of a new capital tax credit of 5% of the value of new investments in manufacturing and processing equipment will stimulate corporate investment and productivity.
- The Government also recognizes the importance of preferential tax treatment for SMEs:
 - by reducing the tax rate of these businesses to 8% for the first \$400,000 of taxable income;
 - by increasing the capital tax exemption threshold to \$1 million, thus allowing over 75% of businesses to be exempted from this tax.

□ Progress acknowledged by the financial markets

The financial markets have recognized the Government's action, particularly the continued efforts at budgetary strictness and preservation of a balanced budget.

Moody's and DBRS have increased Québec's credit rating. Moody's upgraded from A1 to Aa3 in June 2006 and from Aa3 to Aa2 last November. For DBRS, Québec's credit rating rose from A to A (high) in June 2006.

The Moody's decision was based in particular on the improvement of the Government's financial position, its rigorous management of public spending and creation of the Generations Fund. The New York bond-rating agency also took into account the size and diversification of the Québec economy.

Québec's upgraded credit rating could save it \$50 million a year.

ALL REGIONS ARE ON THE ROAD TO PROSPERITY

In the years ahead Québec will have to continue supporting the development of the regions so that Québec as a whole is enriched and benefits from increased prosperity.

Québec's regions have major, diversified development potential. Their main challenge is to make maximum use of this potential.

To meet the challenge of prosperity for all regions, the Government has set three main objectives:

1. Give the regions greater autonomy so that they can take over their own development.
 - If this is done, regional stakeholders will become more involved in developing structuring projects for their community and assuming control of their economic future.
2. Make available the economic tools that the regions need for their development.
 - Each region of Québec has advantages that must be enhanced. To accomplish this, the Government is convinced that each region must be given the means to develop its economic potential.
3. Ensure that all of the regions benefit from quality public infrastructures to encourage their prosperity.
 - Transportation infrastructures facilitate trade between Québec's regions and between Québec and its trading partners. Municipal infrastructures are a key business location factor. Health and education infrastructures contribute to employee productivity and a competitive economy.

Regions taking control of their development through greater autonomy

The Government has taken concrete steps to promote regional autonomy and development, particularly through:

- creation and funding of the Regional Elective Councils (CREs);
- transfer of the Local Development Centres (LDC) to the RCMs;
- the 2007-2013 Agreement on a new fiscal and financial partnership with the municipalities;
- announcement of the 2007-2014 National Policy on Rurality;
- regionalization of government services and their adaptation to the socioeconomic realities of the regions.

❑ **Creation and funding of the Regional Elective Councils**

The creation and funding of the Regional Elective Councils (CREs) represents an unprecedented effort on the Government's part to enable the regions to make the decisions most favourable to their development on their own.

Since the majority of their members are elected officers, the CREs reflect the Government's will to encourage better coordination of local and regional democratic structures.

These new concerted action and planning bodies have the mandate to:

- assess the planning and development bodies at the local and regional levels that are totally or partially funded by the Government;
- encourage concerted action by the regional partners and advise the Minister their region's development, if necessary;
- prepare and implement a five-year development plan for their region, giving priority to democratic participation of young people and women;
- enter into specific agreements with the Government or one of its departments or agencies for implementation of the five-year development plan.

On this basis, the CREs serve as the Government's privileged partner on regional development for the territory they represent.

The Government of Québec funds CRE activities through the Regional Development Fund (RDF), which has a budget of nearly \$40 million for the years 2007-2008 and 2008-2009.

❑ Transfer of responsibility for the Local Development Centres to the RCMs

The Government has also transferred to the RCMs certain responsibilities for local development and entrepreneurship support, including responsibility for the Local Development Centres (LDCs).

More concretely, the RCMs mandate the LDCs to apply their powers over local development and entrepreneurship support within their territory, specifically allowing them to:

- offer a full range of front-line services to businesses;
- prepare a local action plan for the economy and employment, with specific reference to the five-year development plan established by the CRE in its territory and the RCM's metropolitan land use and development plan;
- prepare a development and entrepreneurship strategy, with reference to national and regional objectives;
- act as an advisory body to the local employment centre (CLE) in its territory.

The LDCs will receive a government contribution of \$60 million in 2007-2008 to support local development in accordance with local and regional priorities.

As further support of the LDC mission, the Government has also announced two key measures regarding the local investment funds (FLIs), the main business intervention tool available to the LDCs, namely:

- addition of \$45 million over three years, increasing the loan provision for FLI capitalization to \$171 million;
- postponement for 5 years, until June 1 2010, of the beginning of the repayment period for FLI capitalization loans, thus allowing the LDCs to make more interventions with SMEs located in all regions of Québec.

❑ The 2007-2013 Agreement on a new fiscal and financial partnership with the municipalities

The 2007-2013 Agreement on a new fiscal and financial partnership with the municipalities, concluded on April 27, 2006, will ensure greater financial stability for the municipalities. This is due especially to the gradual refund of the QST paid by the municipalities and a substantial improvement of the equalization program that assists less affluent municipalities.

Based on the principles of equity, transparency and responsibility, this Agreement provides the municipalities with continuous predictable and structuring revenue sources. It also has the main objective of giving municipalities the financial means to offer quality public services to their residents while maintaining the lowest possible tax burden.

This Agreement will provide Québec municipalities with a grand total of \$3.8 billion between 2007 and 2013. The municipalities will have access to growing amounts that ultimately will guarantee substantial and recurring revenue.

TABLE 2

Financial framework of the 2007-2013 Agreement on a new fiscal and financial partnership with the municipalities

(in millions of dollars)

	2007	2008	2009	2010	2011	2012	2013	Total
New agreement	406.6	435.0	475.0	520.0	570.0	655.0	747.0	3,808.6

❑ The National Policy on Rurality

Launched on December 7, 2006 with a \$280 million budget, the 2007-2014 National Policy on Rurality will ensure the development of rural communities and dynamic occupation of their territory by focusing on their special features and their capacity for initiative.

The strategy relies on the RCM as the intervention and decision-making territory. It contains a clause for modifying policies and programs to account for the specificities of rural territories when the Government formulates policies and programs. This policy will benefit the agricultural sector, among others, which has a strong presence in rural communities. In particular, this sector will be able to take advantage of the financial assistance provided for in the policy to stimulate development of rural specialty products.

TABLE 3

2007-2014 National Policy on Rurality **Cumulative financial impacts** (in millions of dollars)

	Amounts (2007-2008 to 2013-2014)
Signing of second generation Rural Pacts	213.0
Addition of 32 Rural Development Agents	25.3
Establishment of rural laboratories (development experiments)	15.5
Creation of the Fonds d'initiatives pour l'avenir rural (initiatives to support tomorrow's rural development)	8.6
Financial assistance to stimulate development of original rural projects (economic diversification)	12.0
Support for the action of Solidarité rurale du Québec (Government advisory body)	5.6
TOTAL	280.0

❑ Regionalization and adaptation of government services

By bringing government services closer to the regions and modifying the standards of government programs to correspond to regional realities, government action is more effective and the regional stakeholders have greater leeway to ensure better development of their community.

This is the context in which the Government, in cooperation with the Regional Elective Councils (CREs), launched a vast operation aimed at:

- regionalizing certain government services;
- adapting government programs to regional socioeconomic realities.

■ Regionalization of certain government services

The Government has chosen to locate different services in the regions in order to bring decision-making closer to the communities concerned, or to contribute to regional vitality. In particular, these services are:

- the office of Chief Forester at Roberval, in Saguenay–Lac-Saint-Jean;
- the Bureau de l'exploitation géologique, and the head office of Société québécoise d'exploration minière at Val-d'Or, in Abitibi-Témiscamingue;
- the CSST call centre at Caplan, in Gaspésie;
- the Québec Parental Insurance Plan customer service centre at Rouyn-Noranda, in Abitibi-Témiscamingue;
- two faculties of medicine in Trois-Rivières and the town of Saguenay, which are satellite faculties of the Université de Montréal and the Université de Sherbrooke respectively.

In addition, Investissement Québec has increased its regional presence. It has established 16 business centres throughout Québec. This decentralization of activities allows approval and management in the regions of 92% of the corporation's regular program interventions.

■ **Adaptation of government services to the socioeconomic realities of the regions**

Last year the CREs submitted 733 proposals to the Government for adaptation of government standards and programs to regional realities.

Based on these proposals, the Government to date has settled more than 500 adaptation measures, most of them very concrete. For example:

- the granting of new powers to local municipalities on economic development (*Municipal Powers Act*) and to the RCMs and local municipalities on operation of a power generating company, by means of wind energy or a hydroelectric generating station;
- the modulation of financial support from La Financière agricole to young farmers for shared-time farming operations;
- the amendments to the Regulation respecting the quality of drinking water to adjust the deadline for bringing facilities and equipment up to code;
- the replacement of the Impact SME Program with a new business assistance program of much more flexible application, the Programme d'aide aux entreprises (PAE).

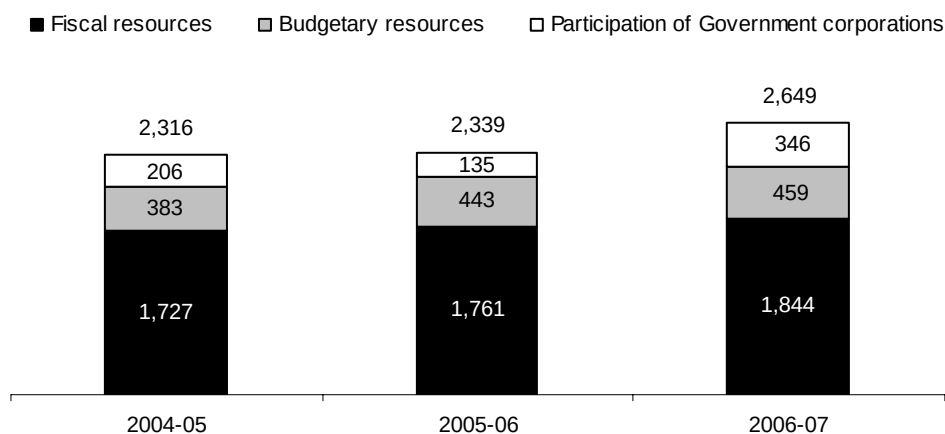
There are ongoing discussions with the CREs on the other adaptation proposals that have been submitted.

Regions with the economic tools they need for their development

To support the economic development of all regions, the Government gives them access to economic tools totalling \$2.6 billion in 2006-2007.

GRAPH 12

Support for economic development- 2004-2005 to 2006-2007 (in millions of dollars)



Source: Ministère des Finances du Québec.

In accordance with the Government's intention to leave more room for private initiative in economic development, economic intervention has been reviewed in depth so as to identify priorities and make it more effective. This support is particularly aimed at investment, research and development, and regional development.

TABLE 4

Support for economic development by line of intervention 2006-2007

(in millions of dollars)

	Amount
Investment	1,039
Research and development	922
Assistance to diversification	250
Business capitalization	188
Culture	179
Other	71
TOTAL	2,649

Source: Ministère des Finances du Québec.

Economic development gaps have been found in the resource regions compared to the other regions of Québec.

That is why the Government grants special support to those regions so as to accelerate their development. In 2005 this support amounted to \$98 million.

TABLE 5

Tax measures favouring resource regions– 2005

(in millions of dollars)

	Amount
Tax credit for processing activities	51
Tax credit for the Vallée de l'aluminium	5
Tax credit for Gaspésie and certain maritime regions of Québec	6
Tax holiday for manufacturing SMEs	36
TOTAL	98

Source: Ministère des Finances du Québec.

The three refundable tax credits for resource regions should end on December 31, 2009. The tax holiday for manufacturing SMEs will end on December 31, 2010.

Certain stakeholders have made the Government aware of the fact that these measures may cause undesirable interregional competition, particularly regarding installation activities.

In the last Budget Speech the Government therefore adjusted the three tax credits to exclude installation of activities eligible for tax assistance, regardless of their location in Québec.

The Government continues to study the entire situation to ensure that support is adapted to the needs of all regions and that interregional competition is minimized.

The Government also intends to continue its economic intervention by an approach aimed at all Québec regions, both in the resource regions and certain territories in difficulty where wealth gaps persist, and in other regions that also have economic challenges to meet.

❑ Improvement of economic intervention in favour of the regions

The review of government support and the Government's new priorities have translated into the following initiatives over the past few years:

- improvement of business financing;
- increased support for innovation;
- acceleration of Québec's energy development;
- addressing climate change;
- support for economic growth of Greater Montréal and the Capitale nationale;
- support for young people and development of an entrepreneurial culture;
- support for development and diversification of regions and territories in difficulty.

❑ Improvement of business financing

The dynamism of businesses established in the regions should be matched by concrete support for the initiatives and projects. In this regard, the State's role in providing venture capital has been modified to allow for a greater showing by the private sector, particularly foreign investors. Since 2003 the Government has acted more as a lever to promote private investment, instead of assuming the private sector's risks and role.

This partnership approach produces very encouraging results. Québec today is very dynamic in venture capital.

- Nearly half the venture capital available in Canada comes from funds managed in Québec.
- In the past few months Québec has benefited from the arrival of several private and foreign funds, which is reflected in these funds' investment activities.
- The share of foreign funds in venture capital investments in Québec is estimated at 23% for the first three quarters of 2006. The participation of these funds thus increased by over 200% since 2002.

To ensure that the new vigour of Québec venture capital also benefits businesses in the regions, the Government has made very substantial financial resources available to them. With the establishment of the Regional Economic Intervention Fund (FIER), which has generated \$750 million to date in contributions from private partners and the Government, and the addition of \$45 million to the local investment funds (FLIs), the Government facilitates access to financing of business projects in the regions.

■ FIER

Creation of the FIER program has made it possible to increase the venture capital available for creation and development of innovative businesses in every region of Québec.

Encouraged by the leverage associated with their participation, private partners responded to the Government's invitation by creating 45 venture capital investment funds for all administrative regions of Québec.

The FIER's regional components, namely FIER-Régions and the FONDs-SOUTIEN, have \$304 million in capitalization and currently account for 39 accredited and/or closed funds.

Thirty of these funds account for \$205 million, exclusively intended to support development and growth of businesses located in the regions, outside the large urban centres.

In addition, 6 specialized funds have been created under the FIER Partenaires component, for \$453 million in total capitalization. These funds will be able to support innovative businesses in every region of Québec.

- For example, the Go Capital Fund, dedicated to the creation and startup of businesses in the technology sector, has \$100 million in aggregate capitalization, including a \$50 million participating investment by the Business Development Bank of Canada.

TABLE 6

FIER – Accredited and/or closed funds

(in millions of dollars)

	Number of funds	Government contribution	Capitalization
FIER-Régions	27	179	268
FONDS-SOUTIEN	12	24	36
Subtotal – regional funds	39	203	304
FIER Partenaires	6	85 ⁽¹⁾	453
TOTAL	45	288	757

(1) Including \$42.5 million of tax-advantaged funds.

Source: Investissement Québec.

Other Government actions with regard to venture capital
Refocusing of the missions of Société générale de financement du Québec and Investissement Québec. For the tax-advantaged funds, two major initiatives have been taken so that they are in a better position to support the growth of businesses in every region of Québec: – new classes of investment in local and foreign venture capital funds have been made eligible in order to allow an increase in the number of venture capital investment funds in every region of Québec and partnerships with private investors, particularly foreigners; – the size of businesses eligible for the investment standard of Fonds de solidarité FTQ, Fondation and Capital régional et coopératif Desjardins has been increased to \$100 million in assets or \$50 million in net equity in order to encourage growth and expansion of Québec businesses. Privatization of Société Innovatech du Grand Montréal and conversion of Société Innovatech Régions ressources to a mixed public-private capital corporation. In addition to these initiatives is the establishment of the SME Growth Stock Plan, which seeks to stimulate and facilitate public financing of Québec small and medium-sized businesses.

■ Support for major economic projects

The Government has also granted financial support to several major economic development projects in all regions.

The Government is participating in several major economic projects
▪ Development of hydroelectric projects in Nord-du-Québec, Mauricie and Saguenay-Lac-Saint-Jean, particularly the Eastmain 1-A / Rupert diversion / La Sarcelle hydroelectric project for nearly \$5 billion ▪ \$2.1 billion investment by Alcan in Saguenay-Lac-Saint-Jean ▪ Growth of TELUS Québec in Rimouski ▪ Alcan pot lining plant in Saguenay ▪ Le Massif project in Charlevoix ▪ Wind farms in the Bas-Saint-Laurent, Gaspésie—Îles-de-la-Madeleine and Côte-Nord regions ▪ Several mining development projects in Abitibi and Nord-du-Québec ▪ Phases III and IV of the Mont-Tremblant development in the Laurentides region ▪ Establishment of an ethanol plant and modernization of QIT-Fer et Titane in Montérégie ▪ Expansion of the video game sector, particularly by support for Ubisoft's investment and job creation projects in Montréal ▪ Support for development of the aeronautics sector in the Greater Montréal region by participation in financing of the Bell Helicopter, Pratt & Whitney Canada and CAE projects ▪ \$30 million for the National Optics Institute

❑ Support for research and innovation

Businesses, particularly SMEs, must have access to the technological progress and expertise they need to carry out their innovation projects, regardless of where they are located.

In this regard, the Québec Research and Innovation Strategy, announced on December 4, 2006, provides for additional investments of \$888 million by 2010 to support research activities in every region of Québec and develop research findings.

- With this strategy the Government intends to maximize the investments granted by ensuring that more marketing results from the research findings.
- To achieve this, the Government will continue to support public and industrial research and will especially strengthen development and transfer mechanisms to businesses.

Montréal and the Capitale nationale will benefit very substantially from investments related to this strategy. The regions will also be able to take advantage of specific measures, particularly regarding operation and maintenance of research infrastructures and settlement of research professors in the regions.

TABLE 7

2007-2010 Québec Research and Innovation Strategy

(in millions of dollars)

	Amount
Infrastructure	408
To enhance the excellence of public research	221
To better support industrial research and innovation in businesses	148
To supplement and strengthen mechanisms to develop and transfer research findings	111
TOTAL	888

Adding the budget measures totalling \$278 million announced in the 2006-2007 *Budget Speech*, additional support for research and innovation will reach nearly \$1.2 billion by 2010.

❑ Acceleration of Québec's energy development

Hydroelectricity represents a strength for Québec.

- Hydro-Québec generates, transmits, distributes and exports electricity. It essentially exploits renewable energy, mainly hydroelectricity.

The growing and varied needs for diverse energy sources and their environmental impacts increase the pressure to find solutions that would meet these energy needs. For decades, the regions have been at the core of Québec's energy development.

With the Québec Energy Strategy, the Government is strengthening the security of our energy supply, accelerating development of hydroelectricity and promoting development of the wind energy sector.

- \$25 billion in hydroelectricity investments over the next ten years;
- \$6 billion in investment for development of the wind energy sector;
- creation of 70,000 jobs.

On January 11, 2007 the Government launched the major Eastmain 1-A / Rupert diversion / La Sarcelle hydroelectric project, an investment of nearly \$5 billion.

- This project will have very important repercussions for the economy of Québec and its regions, particularly for the construction and equipment manufacturing sectors in the Abitibi-Témiscamingue and Saguenay—Lac-Saint-Jean regions.

Development of the wind energy sector is well under way: a first block of 1,000 megawatts has already been developed and a call for tenders has been issued for 2,000 more megawatts.

- This development is particularly important for the Gaspésie region. Around ten businesses are already working on development of the wind energy sector in this region.

Beyond the economic spinoffs, the strategy will allow production of clean and renewal energy for the benefit of every region of Québec.

❑ Addressing climate change

Addressing climate change requires immediate and concerted actions. This is a duty incumbent not only on the Government and the scientific community, but on all the individuals, institutions and businesses of all of Québec's regions.

Québec already has a good track record with a view to limiting greenhouse gas (GHG) emissions, particularly due to its massive investments in clean energy production in the form of electricity. With the 2006-2012 action plan adopted by the Government, Québec is resolutely taking the lead in sustainable development in North America by finding ways of reducing its emissions below the 1990 level.

This plan consists of 24 actions centred on two major objectives:

- reducing or avoiding GHG emissions;
- adapting to climate change.

It also includes raising public awareness and supporting technological innovation and adaptation measures concerning health, the environment, resources and land use.

The actions presented in this action plan will enable Québec to reduce its GHG emissions over the next six years.

This challenge can be met if all regions get involved now.

❑ **Support for the economic growth of Montréal and the Capitale nationale region**

In Québec, Montréal and the Capitale nationale region make a major contribution to the development and economic prosperity of the entire territory. In fact, their economic weight corresponds to 45%¹ of the entire Québec economy.

Given their economic importance, Montréal and the Capitale nationale benefit to a large extent from the spinoffs of the Government's economic development policies and strategies.

These two large urban centres stand out especially in activities related to research and innovation, and in respect to the aerospace, information technology and pharmaceutical sectors.

- 67%² of research and development spending is done in the Montréal and Québec regions;
- Montréal ranks with Seattle and Toulouse among the world's leading aeronautics centres;
- Montréal ranks fourth in North America for employment density in the information technology and pharmaceutical sectors.

In addition, the Government of Québec supports economic growth in Montréal and Québec City, in particular by funding large public infrastructures and supporting major economic development projects.

¹ Source: Institut de la statistique du Québec. 2005 data.

² Source: Institut de la statistique du Québec. 2003 data.

Major investments in urban infrastructures

Urban infrastructures play a strategic role in economic development. In this regard, Montréal and the Capitale nationale region have benefited from major investments, particularly concerning health, research and education.

Major initiatives supported by the Government include the following:

- \$3.6 billion investment for construction of Centre hospitalier de l'Université de Montréal and the McGill University Health Centre and for development of the *Grandir en santé* project of Hôpital Sainte-Justine;
- \$57.3 million for the École de technologie supérieure expansion project;
- \$25 million for the new biology pavilion of the Université du Québec à Montréal;
- \$14.5 million for a multidisciplinary centre in development of tissue engineering in Quebec City;
- \$7.1 million for the Centre de recherche Université Laval–Robert-Giffard;
- \$14 million for construction of the McGill University Cancer Research Pavilion;
- \$15 million for the Montreal Heart Institute;
- \$22 million for the establishment of a lumber treatment centre at Université Laval.

■ Support for major structuring economic development projects

Major economic development projects are essential to maintain the vitality and consolidation of Montréal and the Capitale nationale region as Québec's economic engines. On this basis, the Government has supported several major projects:

- the \$700 million Bell Helicopter investment at Mirabel for development of four new aircraft;
- the Ubisoft expansion in Montréal;
- a \$630 million investment by CAE;
- a major \$250 million research and development project by Pratt & Whitney Canada;
- \$30 million to Quebec City's National Optics Institute for its development plan;
- \$110 million for the 400th anniversary of Quebec City.

Support for development of this type of project thus allows Montréal, Quebec City and their surrounding areas to consolidate their economic environment.

■ Challenges for Montréal

Given their size and economic weight, large metropolitan centres have specific needs and Montréal is no exception.

Montréal will receive \$898.9 million by 2013 under the 2007-2013 Agreement on a new fiscal and financial partnership with the municipalities, which will provide greater financial stability.

However, Montréal faces a worrying budget outlook for the next few years, particularly regarding the upgrade and development of its public transit, safety and road infrastructures. Discussions are already underway between the Government and the City of Montréal to find the best solutions.

❑ **Substantial support for youth and development of an entrepreneurial culture**

Dynamic and enterprising communities contribute to regional prosperity and their future is assured primarily by individuals, especially young people. The Government supports the growth of communities, particularly through:

- the Youth Policy and support for young graduates;
- the *Youth Entrepreneurship Challenge* strategy.

■ **The Youth Policy and support for young graduates**

In a context in which population aging poses major challenges for the sustainability of public services, young people from all regions must have a chance to develop and enhance their full potential.

This is why the Government grants its support to young people in all regions. With a three-year budget of \$110 million, the *2006-2009 Youth Action Strategy* is designed to support the upcoming generations in achieving their ambitions.

- The essence of the strategy is to fully involve all young people and make sure that every one of them is on a path leading to personal success and Québec's collective success.

■ **Support for the return of young people to their community**

The Government is also aware of how hard it is for outlying regions to retain their young people, particularly college graduates, so that they contribute to their development.

To support these regions, a tax credit has been introduced for new graduates working in remote resource regions.

- In 2005 nearly 14,000 new graduates working in the regions took advantage of the tax credit in their favour, for amounts of up to \$8,000.

■ Youth Entrepreneurship Challenge

Creativity, a sense of responsibility, autonomy and solidarity are entrepreneurial values essential to the economic development of Québec and its regions. To achieve their full potential, the regions must be able to rely on a dynamic entrepreneurial base imbued with these values.

This is why the Government established the Youth Action Strategy in order to develop a real entrepreneurial culture and promote its related values to young people in every region of Québec.

The Strategy provides for several measures aimed at:

- strengthening the entrepreneurial culture among young people in the schools and through an environment hospitable to the emergence of such a culture;
- providing effective strategies adapted to young people and future entrepreneurs so that they can carry out their business projects.

Faced with the conclusive results of these different measures, the Youth Entrepreneurship Challenge, which started with a \$21 million budget (2004-2006), was upgraded by \$17 million up to 2009 under the Youth Action Strategy.

❑ Support for development and diversification of regions and territories in difficulty

The Government recognizes that certain regions or territories in difficulty have specific needs and special challenges, particularly with regard to economic diversification.

The Government has taken actions since 2003 to respond to these needs and special contexts.

■ Support for the forest sector

Through the support granted to the forest sector, nearly \$1.4 billion over four years, the Government is helping businesses to modernize and granting special support to workers in Québec regions affected by the softwood lumber crisis.

TABLE 8

2007-2010 Forest Sector Support Plan

(in millions of dollars)

	Amount
October 2006 announcement	
– Labour	54.8
– Communities	45.0
– Support for financing	425.0
– Forest management	197.0
Subtotal	721.8
2006-2007 budget ⁽¹⁾	480.0
2005-2006 budget	167.3
TOTAL	1,369.1

(1) Excluding the \$425 million loan provision. The amounts budgeted for this purpose have been allocated to the new support for the forest industry program, announced last October 20.

■ Assistance fund for single-industry towns

The Fonds d'aide aux villes monoindustrielles, the assistance fund for single-industry towns in economic difficulty, provides support to communities in their efforts toward recovery and economic diversification. Starting with a \$30 million budget, the Fund was upgraded to \$75 million under the Forest Sector Support Plan.

Major investments in public infrastructures

Public infrastructures contribute directly to economic prosperity, to the benefit of all regions of Québec.

- Transportation infrastructures (roads, bridges, etc.) are essential to the movement of passengers and freight. They facilitate trade between Québec's regions and between Québec and its trading partners.
- The various municipal infrastructures, particularly those for water purification and treatment, are essential to business operations and to individuals' health and quality of life. They represent a major business location factor.
- Health infrastructures are essential to the health and welfare of the working population, and contribute to creating a competitive advantage for Québec. Education infrastructures contribute to the training of workers, research and innovation, which are key determinants of productivity and competitiveness.

The Government of Québec has made major efforts in favour of infrastructures since 2003. Thus, capital expenditures rose from \$2.9 billion, on the average, for the 1997-1998 to 2002-2003 period, to \$4.7 billion in 2006-2007.

TABLE 9

Public capital expenditures

(Government contribution in millions of dollars)

	Average from 1997-1998 to 2002-2003	2006-2007	Variation
Health and social services establishments	575	1,007	432
Educational institutions	704	784	80
Road network	649	1,197 ⁽¹⁾	548
Municipal infrastructures and public transit	261	623	362
Other public infrastructures	740	1,114	374
TOTAL	2,929	4,725	1,796

(1) The total budget for the road network amounts to \$1,300 million, including non-capitalizable expenditures of \$103 million.

Source: Ministère des Finances du Québec.

A portion of these investments is allocated to asset maintenance.

- For example, hospitals and educational institutions now have an budget equivalent to 2% of the value of properties to ensure that they are maintained in good condition, to which a 1% budget is added for the health-care sector for redevelopment and conversion work intended to improve the quality of services.

The effort allocated to infrastructures has been particularly significant with respect to the road network. In 2006-2007 \$1.3 billion will have been invested in this network, including:

- \$421 million for its development;
- \$879 million for its conservation.

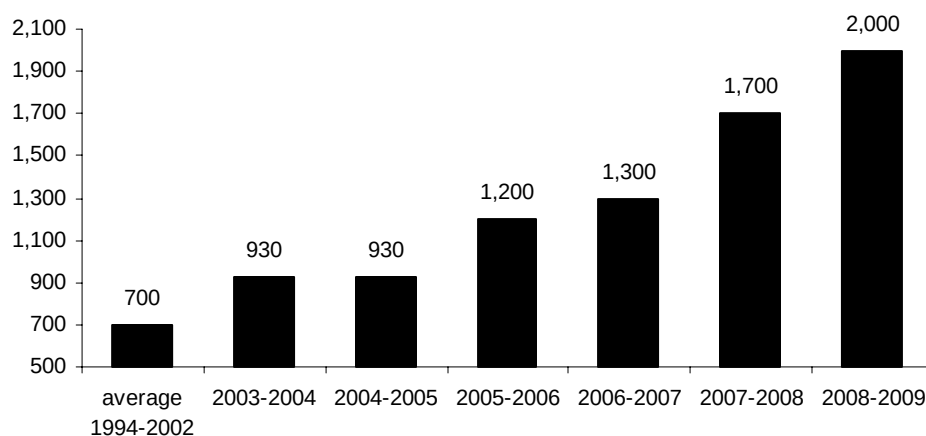
This level of investment represents an increase of over \$500 million in relation to the average amount invested during the period from 1997-1998 to 2002-2003.

In addition, the Government is investing \$1.7 billion in the road network in 2007-2008 and \$2 billion in 2008-2009.

GRAPH 13

Progression of road investments

(in millions of dollars)



Source: Ministère des Transports du Québec.

The Government is developing transportation infrastructures throughout Québec

- \$157 million investment for the Autoroute 20 extension from Cacouna to Trois-Pistoles in the Bas-Saint-Laurent region
- \$70 million dollars for the development of Promenade Samuel-De Champlain in Quebec City
- Investment of over \$300 million for renovation of subway equipment in Montréal
- \$30 million investment for the 73/173 main highway in Chaudière-Appalaches
- \$15 million for modernization of Jean-Lesage International Airport in Quebec City
- \$1.7 billion investment for the Autoroute 30 extension and \$300 million for Autoroute 25
- \$256 million investment for the Autoroute 50 extension in the Outaouais region
- Financial support for the extension of the Robert-Bourassa highway (formerly Autoroute du Vallon) in Quebec City
- \$300 million investment for development of the Montréal East Island train service
- \$100 million investment project for extension of Highway 138 between the localities of Kégaska and Vieux-Port on the Lower North Shore
- Agreement between the governments of Québec and Canada on the completion of Autoroute 30 westbound on Montréal South Shore

❑ Public transit

In June 2006 the Government published its new Québec Policy Regarding Public Transit. This policy is directly in line with the implementation of sustainable development, because of the economic, environmental and social dimensions related to the use of public transit.

The Government's objective is to increase the use of public transit throughout Québec, both in urban and rural communities. For this purpose the Government supports initiatives aimed at improvement of services, modernization of equipment and development of alternatives to the automobile.

In addition to the financing from the regular programs of the Ministère des Transports and Société de financement des infrastructures locales (SOFIL), the Policy provides that the Government will allocate an additional \$130 million per year to public transit from the Green Fund established under the Climate Change Action Plan.

❑ Improved sports and cultural infrastructures

Moreover, to guarantee access to modern and safe sports facilities, the 2006-2007 Budget announced the creation of the Sports and Physical Activity Development Fund. The Government uses this Fund as leverage to generate half a billion dollars in investment for sports and recreation facilities in the regions. Projects are already underway in Québec's different communities.

The 2006-2007 Budget also accentuated the Government's efforts in support of heritage, announcing the creation of the Québec Cultural Heritage Fund with a budget of \$10 million per year. This represents \$200 million over the next five years, which will allow several regions to go ahead with projects enhancing Québec's cultural heritage.

Actions that have borne fruit

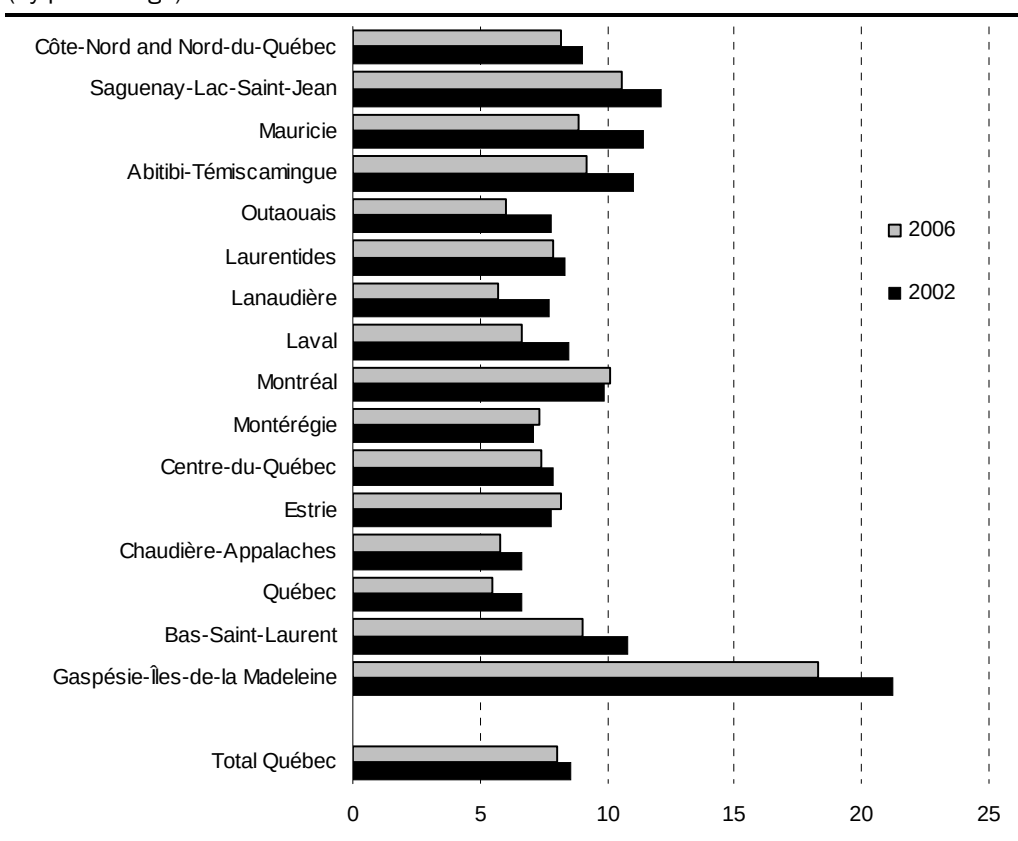
The actions taken by the Government have contributed to the prosperity of all regions, as evidenced by:

- a reduction of the unemployment rate in the regions;
- greater involvement of regional stakeholders in their economic and social development.

GRAPH 14

Unemployment rate in Québec's regions

(by percentage)



Source: Statistics Canada.

CONCLUSION: WE HAVE TO GO FURTHER

For nearly four years the Government has multiplied its actions to promote economic growth, wealth creation and prosperity in all regions of Québec. Even though much still remains to be done, the results are already visible.

The economy is doing well. The Government's actions have contributed to economic growth. Rigorous and transparent management of public finances, reduction of the personal and corporate tax burden, reduction of the debt load, improvement of infrastructures and measures designed to stimulate investment, all affirm that Québec is better equipped today than it was yesterday to confront the challenges that face it.

The Government's actions have given the regions major leverage for intervention and more resources to assure their future and assume the leadership role they deserve.

Nonetheless, the harmonious occupation and development of a territory as vast as ours is a constant challenge. We must take this into account and never stop exploring new development avenues. Above all, we must remember that Québec and its regions are not in competition with each other. Montréal is not in competition with Quebec City. Bas-Saint-Laurent is not in competition with Abitibi-Témiscamingue. We know who our competitors are. They are Boston, São Paulo or Bangalore.

To deal with this competition in the decades ahead, Québec's regions must continue to maximize their development potential. Thus all of Québec will be able to benefit from increased prosperity.

Questions for the consultations

1. The Government's efforts to maintain a balanced budget and control spending have produced results, particularly in raising Québec's credit rating. Do you agree that this orientation should remain a priority?
2. What additional means should the Government favour to support development of the potential of the various regions?
3. How can the Government facilitate the creation and development of new businesses in every region of Québec?
4. Should the Government modify the measures favouring young people, particularly those aimed at their retention and return to resource regions and the development of a new generation of workers, particularly in agriculture?
5. How can the Government make sure that it is fair to all regions of Québec while meeting the special needs of some of these regions?

Participate in our online consultation at the following address:

www.finances.gouv.qc.ca

