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The Canadian province is fighting protectionism and championing the widening of trading links with the U.S. and the EU.



Quebec

Gateway to free trade

With free markets struggling to overcome the global economic recession, Quebec is intent on playing an instrumental role in developing greater trade ties between North America and Europe.

Its French language and culture can enable the province to play a unique role in promoting free-trade pacts, not only between itself and France but also between Canada and the EU, says Quebec Premier Jean Charest.

During a visit to Brussels and Paris earlier this year, Charest emphasized the urgent need for North America and the 27-nation European bloc to avoid protectionism and move faster in establishing new free-trade agreements within their group.

Treaty negotiations between Ottawa and Brussels are due to begin in May, and Charest believes such a pact could serve as a model for an eventual EU-U.S. free-trade agreement.

A manpower mobility agreement has already been signed by Charest and President Nicolas Sarkozy of France. It will deregulate a dozen professions and almost as many trades, giving professionals and tradespeople eligibility to work in either Quebec or France.

Preserving its language and culture while remaining

a part of North America has been one of Quebec's proudest achievements, he says. "We value that because we know that a language is another way of seeing the world."

Quebec has prospered hugely over the past two decades from the U.S.-Canada Free Trade Agreement. It has a gross domestic product of about \$221 billion, and in per capita terms it surpasses Italy and Spain.

The province has diversified substantially from its reliance on a resource-based economy by developing rigorous knowledge-based sectors reflecting its strengths in aeronautical, pharmaceutical, biotech, IT and multimedia disciplines. More than 40,000 people currently work in the Quebec aerospace industry, including 12,000 at Bombardier Aerospace. The provincial government has also been effectively promoting venture capital by establishing a regional fund that has raised \$279 million, one-third of which came from the private sector.

In a two-year period, 11 specialized high-tech funds were created in the life sciences and IT fields, with a total capitalization of \$1.1 billion, 90% of which came from the private sector.

Continued from the previous page

Finance Minister Monique Jérôme-Forget points out that the provincial government has eliminated capital tax in the manufacturing sector and plans to do the same in the service and banking sectors by next year. "That's a major change in terms of philosophy, because if you tax investment, you penalize companies that modernize their businesses," she says.

Eighteen months ago, a \$24 billion infrastructure development program was instituted, which, she says, is now having an impact on the economy. Another priority has been the province's human resources. "We're not lacking jobs; we're lacking people," she explains. "Everybody is looking for qualified people with experience, skills and energy."

This problem is exacerbated by the fact that the province has an aging population. "You can't stop people aging," says Jérôme-Forget. "But what we can do is make sure that we attract young people and keep them."



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Quebec is doing this by adopting policies that focus on young people's requirements regarding housing, social amenities and schools. It has devoted an extra \$201 million to education, and this is proving worthwhile. "Quebec rates third in the world in

85% of the province's exports, the Quebec premier has been working with New York State Governor David Paterson to create what they have dubbed a Quebec-New York Green Corridor Council to promote cross-border business.

Clean, renewable energies are a particular focus of attention in Quebec. The province is Canada's leading producer of hydroelectric power, enabling the country to be the world's top producer, and Quebec is investing \$25 billion over the next ten

"We're not lacking jobs; we're lacking people. Everybody is looking for qualified people with experience, skills and energy."

Finance Minister Monique Jérôme-Forget

mathematics and fourth in science, after Singapore, Korea and Japan," she says.

Raymond Bachand, minister of economic development, innovation and export trade, says that in terms of job creation, the Montreal metropolitan area has soared to the top position in the continental north-east and to fourth place among the 20 biggest North American areas.

Although the current financial contractions have caused a reduction in trade with the U.S., which at its height accounted for

years to develop its sources of alternative energy. "We will be the biggest producer of wind power by 2015," says Charest.

The province is also fostering closer ties with Ontario, its biggest economic partner within the Canadian Federation. For the first time in their history, the two provinces held a joint cabinet meeting. One aim is to bring about total labor mobility within the country.

Another provincial government initiative is the development of the mining, energy, tourism, transport and communications facilities in the still largely underdeveloped area of northern Quebec. "What I want is a coherent and very forward-looking program to attract investment, build infrastructure and involve our First Nations and the Inuit in the project," Charest says.

Returning to the initiative for free trade with the EU, Charest notes that when Europeans talk about such a project, they are usually referring primarily to an agreement with the U.S. "They always forget Canada," he says. "But my argument to Europeans is that if they want a substantial deal with the U.S., there's a fast track to get there, and that would be to do a deal with Canada." ❖

By Michael Knipe

At the time of press, the currency conversion rate used was Canadian dollars to U.S. dollars - C\$1 = \$US0.804.

All monetary figures stated are U.S. dollars unless otherwise indicated.

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Montreal Gets a Makeover

The city of laughter, music and vision is reinventing itself with a multibillion-dollar investment to boost tourism and enterprise.

Montreal, the commercial capital of the Quebec province, is in the midst of a dynamic program of refurbishment.

The aim is to improve the efficiency of its infrastructure, enhance the quality of life of its citizens and redouble its already formidable reputation as a city of knowledge, creativity, innovation and avant-garde culture.

“Our choice was either to invest simply in maintaining the status quo or to reinvent the city,” says Gérald Tremblay, Montreal’s mayor. “We decided to reinvent the city. We want to eliminate the concrete structures that were built in the 1960s.”

The massive makeover, the biggest urban renewal of the greater metropolitan region

of Montreal since Expo 67, is known as Vision 2025. At an estimated cost of \$49 billion, it involves more than 130 projects, including scrapping a major highway and relocating the route as an underground tunnel; introducing a light rail system; and demolishing buildings to restore views of Mount Royal, a hill north of downtown Montreal.

The project is jointly funded by the federal and provincial governments, the city administration and the private sector. “Even though there’s an economic slowdown, accelerating investment in public infrastructure will generate billions of dollars in private investment,” says Tremblay. “Every time we invest a dollar in infrastructure, it generates a 17-cent productivity gain for business.”

For 20 years, he says, Montreal and its business community have invested substantially in both industrial research and

human resources. The metropolitan region has pursued a structure of creating interdependent business clusters. It now has 12 of these, which increase competitiveness, add value and create jobs.

Already internationally known as the hometown of Cirque du Soleil, the comedy festival “Just for Laughs,” and a leading jazz festival, the city plans to increase its cultural attractions by adding a new museum and a new concert hall for the Montreal Symphony Orchestra.

Such attractions bring more than 7 million tourists to the city annually, including 2 million foreigners, half of whom are from the U.S.

Montreal rates second after New York for international conventions in North America. Its advantages, says John Dunn, vice president of Tourisme Montréal, are that people see it as an international city with European flair, North American efficiency and a greater sense of intimacy.

Mayor Tremblay says Vision 2025 will ensure Montreal’s continued vitality. It is estimated that the city’s cultural sector generates approximately \$4 billion in economic activity and provides 90,000 full-time jobs. ♦

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Creating Momentum

*For investors and entrepreneurs,
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With an average economic growth over the past decade of 8.2%, Laval, Quebec's third-largest city, is a focal point for business development, especially in the biotechnology, pharmaceutical and horticulture sectors, as well as a leader in business tourism.

For the past six years, Laval has attracted \$1.2 billion worth of investment annually. "We are currently looking for major investors to expand Laval's downtown area, and we definitely need a marina for private boats," says Gilles Vaillancourt, Laval's mayor.

Situated on an island in the Prairies River north of Montreal, with 12 industrial parks and an abundance of farmland and countryside, Laval offers prime locations for young, emerging companies and their employees.

It aims specifically to attract and help

develop companies in the sphere of biotechnology, agri-food and knowledge-based industries. One industrial park is dedicated solely to biotech businesses and a supportive cluster of services. It accommodates 90 companies, employing 5,200 people, mostly in research and development.

"A decision was made in 2001 to develop it as a biotech city," says Pierre Desroches, director general of LAVAL TECHNOPOLE, the agency mandated to attract companies and investment to Laval. "New companies were stringently selected to make up the city with the proviso that they could create an added value."



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The Biotech City is a globally unique locality where the research, innovation, financing, manufacture and distribution of new biotechnologies can all be realized within a few square kilometers.

Horticulture is another of Laval's specialities. "We account for 37% of [that sector's] sales in Quebec, making us the capital of horticulture," says Vaillancourt.

With 30% of its territory devoted to agricultural production, Laval offers an attractive balance of economic enterprise and environmentally friendly living. It provides a good quality of life, affordable housing, good schools, universities, sports facilities and green spaces.

Companies that qualify for the Biotech City receive a five-year tax credit, assistance from the city of Laval, and access to a wider market of 3.7 million consumers. ❖

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Education and business ideas go hand in hand in Quebec, where international students are engaged in research and development.

A big attraction for businesses operating in Quebec is the fact that it has one of the highest proportions of university graduates in the world.

Out of the province's 14 postsecondary educational institutions, the University of Sherbrooke lays claim to having attained the highest number of inventions, which earn it lucrative royalties.

Professor Bruno-Marie Béchard, the university's president, says that few people, even within the institution itself, knew of Sherbrooke's true strengths until he highlighted its achievements.

On his appointment in 2001 at the age of 36, Béchard became the youngest university president in North America, and he proceeded to initiate a fundamental reworking of faculty structures.

For example, two Sherbrooke research teams in telecommunications and informa-



tion systems will soon be working collaboratively rather than competing with each other. "This is the only place in North America where these two domains will work together," says Professor Béchard.

With more than 1,600 foreign students from 90 countries among a total of 36,000 students, Sherbrooke offers 330 programs and has strong research departments in aerospace, engineering and medicine. It has spun off 24 businesses based on the results of research by its professors.

Another of Quebec's distinctive educational establishments is HEC Montréal

(École des Hautes Études Commerciales). "We're probably the most European of all business schools in North America and more North American than any *grandes écoles* you will find in Europe," says Dr. Michel Patry, HEC Montreal's president.

The founders of the business school, created in 1907 and located in a French-speaking enclave, quickly realized that its faculty would have to teach in English as well as French, and HEC will soon offer its courses in Spanish as well. Due to the success of its core bilingual competency, HEC is among the first to offer an accredited trilingual curriculum.

The school has developed strong research-oriented M.Sc. and M.A. degrees and has one of the largest Ph.D. programs in North America, attracting students from more than 30 countries with 60 different languages.

It is now looking for new partner companies around the world to contribute to the expansion of the school's curriculum.

More than half of the school's students are sent abroad or work on international projects, says Dr. Patry. His goal is to have all students doing this within a couple of years. ♦

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City of Creativity

Science, technology, art and culture are the lifeblood of Quebec. Now the mayor wants an influx of investment and young people to market its talents.



What links an innovative bionic knee with a technology that could help decrease global warming? These two scientific breakthroughs were both engineered in research and development labs in Quebec City.

They illustrate what Mayor Régis Labeaume describes as the city's "economy of creativity."

Victhom Human Bionics invented the bionic knee, which replicates the function of a missing limb so that an amputee can climb stairs and walk on uneven surfaces. And CO₂ Solution has developed and patented an enzyme-based technology that captures carbon dioxide with an efficiency

that will significantly help in reducing greenhouse gases.

Mayor Labeaume estimates the city will undertake R&D worth up to \$4 million, with 65% devoted to biotechnology and health sciences. "We have 6,000 people working in scientific laboratories here in a community of half a million. It's incredible. You wouldn't find that anywhere else in the Western Hemisphere."

Having celebrated its 400th anniversary last year, Quebec City is as proud of the modernity of its outlook as it is of its ancient heritage. It may have been the cradle of French civilization in North America,

but today it is a hub of innovation and has the province's most modern airport, its busiest seaport and a thriving tourism sector.

"We handle 28 million tons of cargo a year," says Ross Gaudreault, the president of the Port of Quebec. "We do business with 60 countries and bring in \$276.9 million every year to the economy."

For tourists, the city has the unrivaled charm of its French colonial past and frequent direct-flight connections with New York, Detroit, Cleveland and Mexico City. "We can fly 3,000 people in and out easily on a daily basis," says Dany Thibault, president of Tourism Quebec.

The city is also an internationally noted cultural hot spot for which the term "techno-culture" has been coined. This conveys its boundary-breaking artistic projects, which mix live performing arts – dance, opera and music – with computer graphics, video and multimedia disciplines.

A pioneer of this trend has been Quebec-born Robert Lepage, an internationally distinguished film and theater director, scenic artist, playwright and actor. Believing that theater needs new blood, Lepage has initiated collaborations between scientists and playwrights and between set painters and architects.

Mayor Labeaume is hoping to capitalize on the techno-culture trend. "We've asked Robert Lepage's people to conceptualize a trade sector where technical guys and cultural people will live, work and collaborate in a cluster of creativity," he says.

Young people with artistic ambitions will be invited to come to Quebec City, he says, and the city will help them develop their talents and write books, record CDs or make movies.

"We have just implemented an initiative with five big companies that are sponsoring a National School for Digital Entertainment," he says. The purpose of the school will be to enable young graduates who lack practical experience to work on live creative projects.

The mayor believes that with this project, in five years' time Quebec City could be ahead of the game in the field of information technology in the movie industry. With regard to scientific and technological innovation, the goal of the mayor and his team is to commercialize the city's reservoir of know-how by attracting more investment from Europe and the U.S. that will take the lab prototypes to the marketplace.

OUR TRUE COLORS : A PASSION FOR BUSINESS

Québec is a modern, open society that has many benefits to offer:

- > A dynamic business environment conducive to strategic alliances
- > A knowledge and innovation based economy
- > Innovative and diverse firms and businesses, including many world leaders
- > Sources of renewable energy and truly impressive freshwater reserves

Carl Viel, the president and chief executive of Pole, Quebec City's economic development agency, points out that the city is the country's biggest R&D site for defense and security projects. Information technology is another core strength. Other sectors in which the city has competitive expertise include optics, photonics and computer games.

"If you look down the road in terms of identified projects, there are potential investments worth C\$2 billion [\$1.6 billion] in the greater Quebec area to which we can bring lead components," says Viel.

One of the challenges facing Quebec City is demographics. "We have an aging population," says Labeaume. "Our target is to ensure that Quebec City attracts more young people with young families who will love the city and decide to stay here."

The provincial capital certainly has more than enough positive points in this respect. It offers European appeal in a North American setting. Opportunities to ski, fish and trek can be reached from downtown in 30 minutes. And the city is clean and safe.

"We didn't have a single murder last year," says the mayor. "Anyone can jog at 11 p.m. and feel safe." ❖

Building Quebec's Energy Future

After discovering huge quantities of gas, the Quebec government continues to encourage explorers to search for more.

While it has plentiful reserves of iron, gold, copper, niobium and titanium, Quebec was not thought to be rich in oil or gas.

That was until two years ago, when a group of junior exploration companies began working on deposits of shale gas in rocks that could potentially yield trillions of cubic feet of unconventional gas.

The Province of Quebec consumes over 200 BCF (billion cubic feet) of gas every year but is not currently producing a single cubic foot. The majority of natural gas consumed in Quebec comes from Alberta.

Gastem is the first company to drill and evaluate the Utica Shale, a recently identified high-potential shale resource that is in the process of being developed. In partnership with Forest Oil, a shale gas production company, Gastem is now working to make Quebec the next producing province.

The proximity of pipeline networks,

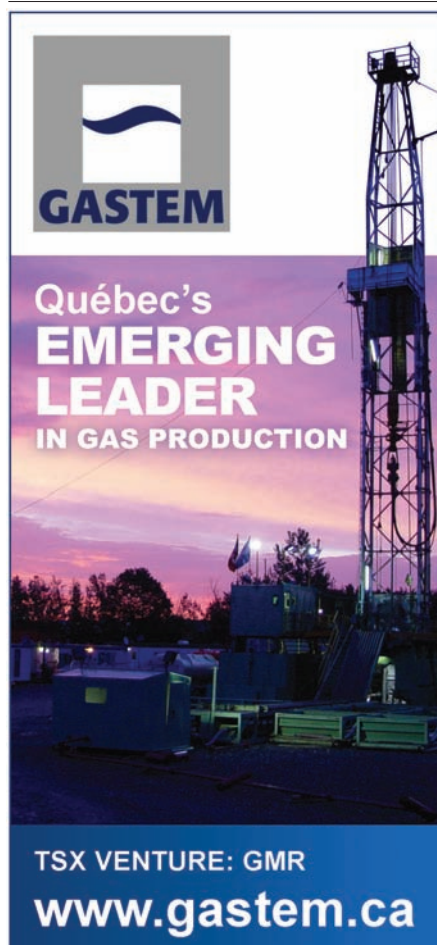
the premium on the gas price and the low-royalty regime are among the factors that make Quebec favorable for gas exploration and development.

"The advantages of doing exploration in Quebec are enormous," says Raymond Savoie, the chairman, CEO and founder of Gastem. "You are able to get large acreages, and you may be eligible to receive a return from the government on your exploration expenses. A tax credit based on flow-through expenses transferred to investors is the best in North America."

The government incentives are generous enough, he says, to encourage exploration programs in several resource sectors. "It's one of the key methods that Quebec uses to develop its regions, and so far it's proved very successful. It has created jobs, stimulated resource sector development and opened up new areas."

He notes that Quebec's mining law is among the most progressive.

Savoie speaks from more than 20 years' experience in the mining industry, including six years as Quebec's Minister of Mines. ❖



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Power to the People

Quebec is upgrading its energy business to increase its efficiency in an ever-competitive market and boost exports to the U.S.

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Undeterred by the instability in the global energy markets, Hydro-Québec, the world's largest producer of hydroelectric power, is investing \$20.1 billion in its generation and transmission facilities over the next five years.

The U.S. will be a major beneficiary, as Quebec is already sufficiently supplied by its existing generation capacity, and the additional output of electricity will be entirely for export. "We're negotiating now with some American utilities," says Premier Jean Charest. "We export a lot to the U.S. now, but we want to export more."

Rebutting the arguments of some Quebecans who favor privatization of the state-owned company, the premier says the investment by Hydro-Québec, coupled with the provincial govern-

ment's own infrastructure program, will pump \$57.9 billion into the province's economy in the coming decade.

Hydro-Québec is spreading its investment between hydro, nuclear and wind power. It is spending \$1.6 billion on refurbishing the company's nuclear plant, which provides an important anchor for the grid, to give the facility a further 30 years of useful life. An additional \$2.4 billion investment in wind power is on track to deliver 4,000 megawatts by 2015.

"One of the major trends is the growing recognition that we have to deal with global warming and we have to decarbonize our economies," says Thierry Vandal, Hydro-Québec's president and chief executive. "This means getting more electricity into our economies. There's no way around it."

He points out that Hydro-Québec has been a renewable and sustainable energy company since its birth. "That's what we do. In that sense, the last couple of years have just presented a context that encourages us to accelerate things."

Given the fears of gridlock on the high-voltage grids in North America and the problem of building high-voltage power transmission lines from the point of supply, Hydro-Québec is confident that its investment in new digital technology will enable it to stay ahead of its competitors.

As a state-owned entity, the company can adopt long-term business cycles without having to worry about a drop in its share price, says Vandal: "In our business, we have to focus on what is going to be out there in 10, 15 and 20 years' time."

The developed world, he says, has to stop relying on oil for its energy supplies. "The good thing is that we now have the technologies to do it. It's not a dream. We just have to get it done." ❖

QUEBEC CITY: INSPIRING THE WORLD!



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