

ENTREPRENEURSHIP AND INNOVATION

ECONOMIC
VISION
2012-2020



fcca | Fédération des chambres
de commerce du Québec




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The image features a white background with several thin, black, overlapping circular lines. A large, solid teal rectangle is positioned on the left side, extending from the top to the bottom of the frame. The text "ENTREPRENEURSHIP AND INNOVATION" is centered within this teal rectangle in a black, sans-serif font.

ENTREPRENEURSHIP AND INNOVATION

The image features a minimalist design with a black rectangular block on the left side. To the right of this block, several thin, white, overlapping circular arcs are visible, creating a sense of depth and movement. The text is centered within the black block.

MESSAGE FROM
THE BOARD OF
DIRECTORS

As entrepreneurs and business leaders, we have joined forces with the Fédération des chambres de commerce du Québec (FCCQ) because we believe in the importance of the contributions of an employer organization representing all of the business sectors and regions of the province.

The FCCQ is the leading voice for businesses and entrepreneurs on matters of public debate concerning economic development. This voice not only draws attention to the specific concerns of the business community, it also advocates a view of economic development that is based on initiatives and investments made by ethically minded executives. The FCCQ embraces an economic development model that creates wealth and thus raises the standard of living of the Québec population and enhances community prosperity. The FCCQ seeks to have a positive impact on all economic stakeholders—businesses, governments, institutions, unions and individuals alike.

We felt it was time to update the FCCQ's economic vision and thereby hone our strategic approach. It is important to have a clear understanding of the environment in which Québec businesses will be operating for the foreseeable future, given the economic, social and political changes on the horizon at the provincial, national and international level. And it is essential to define the key spheres of activity where the FCCQ will have the greatest influence on the economic development of the various regions of the province, as well as Québec as a whole.

We trust that this economic vision will prove to be a source of inspiration and an accurate reflection of our development potential and our ambitions and aspirations in today's competitive marketplace.

Chairman of the Board

Marie-Huguette Cormier

Executive Vice-President of
Communications
Desjardins Group

Outgoing Chairman

Chairman of the 2012-2016
Strategic Planning Steering
Committee 2012-2016

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Partner
Fasken Martineau DuMoulin

CEO of the FCCQ

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Restaurant Pacini Inc.
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Network Member

Denis Grenon

Investment Advisor
Financière Banque Nationale /
Trois-Rivières

Member

François Camirand

Area Vice-President, Quebec
Scotiabank

Michael Novak

Executive Vice-President
SNC-Lavalin Group

François Morin

CEO
WCIT 2012, World Congress on
Information Technology



MESSAGE FROM THE CHIEF EXECUTIVE OFFICER

*« QUÉBEC BOASTS
A NUMBER OF
UNDISPUTABLE
ADVANTAGES, WHICH
ARE POISED TO AFFORD
IT AN ENVIABLE LEVEL OF
PROSPERITY »*

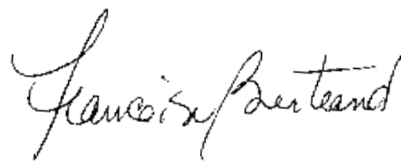
The economic vision we are presenting in this document is firmly rooted in the realities facing businesses across Québec. It has been shaped by the input and insight of more than 1,200 corporate members and 155 chambers of commerce representing some 60,000 companies. I would like to take this opportunity to thank them all for their generous contributions to the process.

This economic vision outlines our understanding of the key factors that are likely to have an influence on our development in the foreseeable future and the main challenges confronting Québec businesses and entrepreneurs. Considering how open our economy is, we are particularly sensitive to international economic conditions, market upheavals and public policies espoused by governments here and in other countries.

Québec boasts a number of undisputable advantages, which are poised to afford it an enviable level of prosperity. But there are also major barriers to economic development requiring consideration. If the Fédération des chambres de commerce du Québec is to be effective in its efforts, it must take an unbiased, uncompromising look at the factors that help and hinder our economic development and our ability to generate wealth. It is this rigour and discipline that will ensure that the FCCQ is in a better position to offer help to businesses and thus benefit all of Québec.

Guided by this economic vision, the FCCQ will define its operational priorities in its 2012-2016 strategic plan. It will subsequently prepare an action plan on an annual basis that takes into account this economic vision and the needs of the business community.

This economic vision is intended to serve as a roadmap of sorts and steer us in our efforts. As such, it is a document of major strategic importance.



Françoise Bertrand
President and CEO



A DRAMATICALLY
CHANGING
ECONOMIC
LANDSCAPE

1. AN ECONOMY EXPOSED TO INTERNATIONAL COMPETITION

The global economy has undergone shifts of increasing intensity that have had significant repercussions on Québec's economic landscape. These market upheavals have been more unpredictable than in the past and have had a swift and sweeping impact on employment, economic growth and even social unrest in many countries.

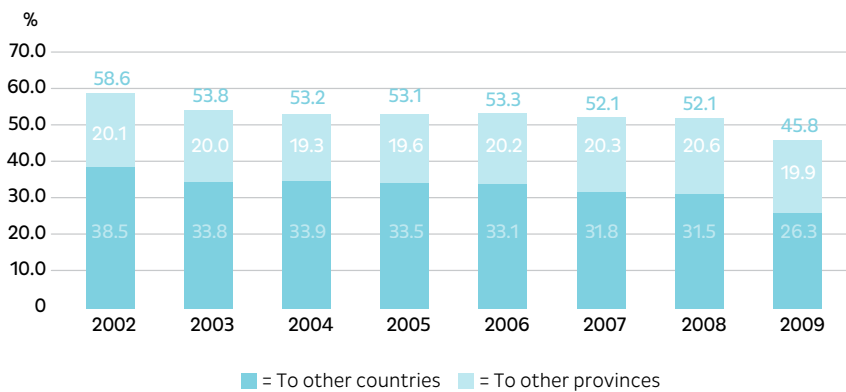
The Québec economy is open to the rest of the world. According to the Institut de la statistique du Québec, 1.1 million direct and indirect jobs (30% of all employment in the province) are attributable to interprovincial and international exports of goods and services.

The share of exports in GDP decreases in 2009

Although they have been on the decline since the 2009 financial crisis, sales of Québec goods and services outside the province still make up a significant proportion of our gross domestic product (GDP).

Because of the relative significance of exports, the Québec economy is considered to be more open than the economies of several developed countries, even though it lags behind others, as the table opposite shows.

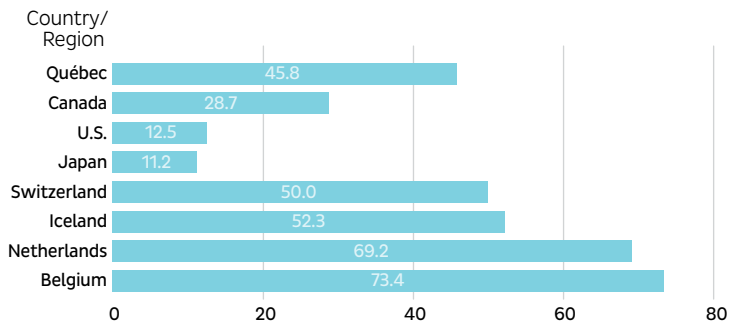
SHARE OF EXPORTS IN GROSS DOMESTIC PRODUCT (GDP)



Since the abolition of almost all import duties and the explosion in communication technologies, Québec is up against increased competition in almost all of its industries. It has therefore been particularly sensitive to international economic conditions and changes that affect global economic currents.

An in-depth understanding of major global economic trends is essential to gaining a better grasp of the challenges Québec will have to overcome in the next decade to maintain its economic prosperity. And fundamental changes are currently taking place both in industrialized nations—our traditional trading partners—and emerging countries.

EXPORTS AS A PERCENTAGE OF GDP (%), 2009¹



* Exports as a percentage of GDP is an indicator of the degree of openness of the economy and not their value added in the economy (see this issue on page 14).

¹Source: Ministère du Développement économique, de l'Innovation et de l'Exportation. Le calepin du commerce extérieur, 2011. Includes sales to other provinces and countries.

2. ECONOMIC SLOWDOWN AND CHRONIC DEBT IN THE U.S. AND EUROPE

The United States and Western Europe have been the world's economic powerhouses since the end of World War II.

Québec has benefited greatly from this situation, capitalizing on its proximity to the vast U.S. market and, to a lesser extent, its historical ties with Old World countries.

This is illustrated in our export patterns. In 2010, 69.5% of Québec's international exports were to the United States and 14.3% were to Western Europe.

Unfortunately, the U.S. and almost all of the European continent will see a slowdown in growth in the coming years.

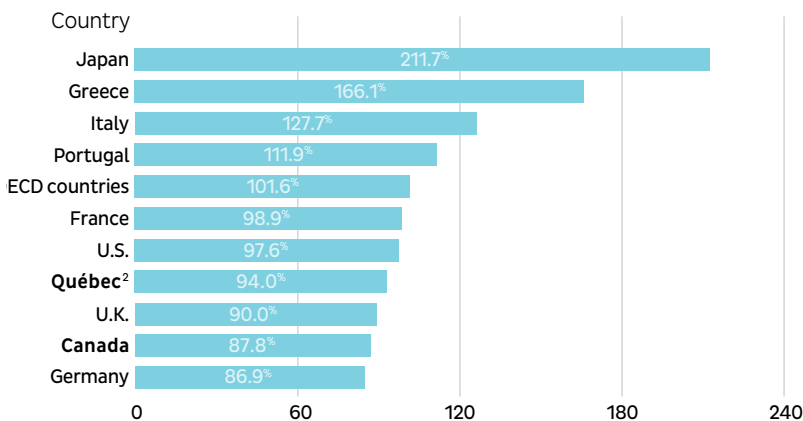
This situation is exacerbated by the debt crises in these countries, as the table below shows.

The International Monetary Fund fears that by 2014 public debt will represent 120% of GDP in several European countries, due to the persistently sluggish economy.

In the coming years, European and U.S. governments will need to take action to address some significant imbalances in public finances. Regardless of the approach they take (tax hikes vs. government spending cuts), economic growth in these countries will dwindle as a result.

The United States (21%) and the European Union (26%) together account for 47% of the global GDP and remain the world's leading consumer markets. Although they will continue to be key destinations for Québec exports, selling our goods and services to them will become more and more problematic. This marks a fundamental economic transformation compared with the past few decades.

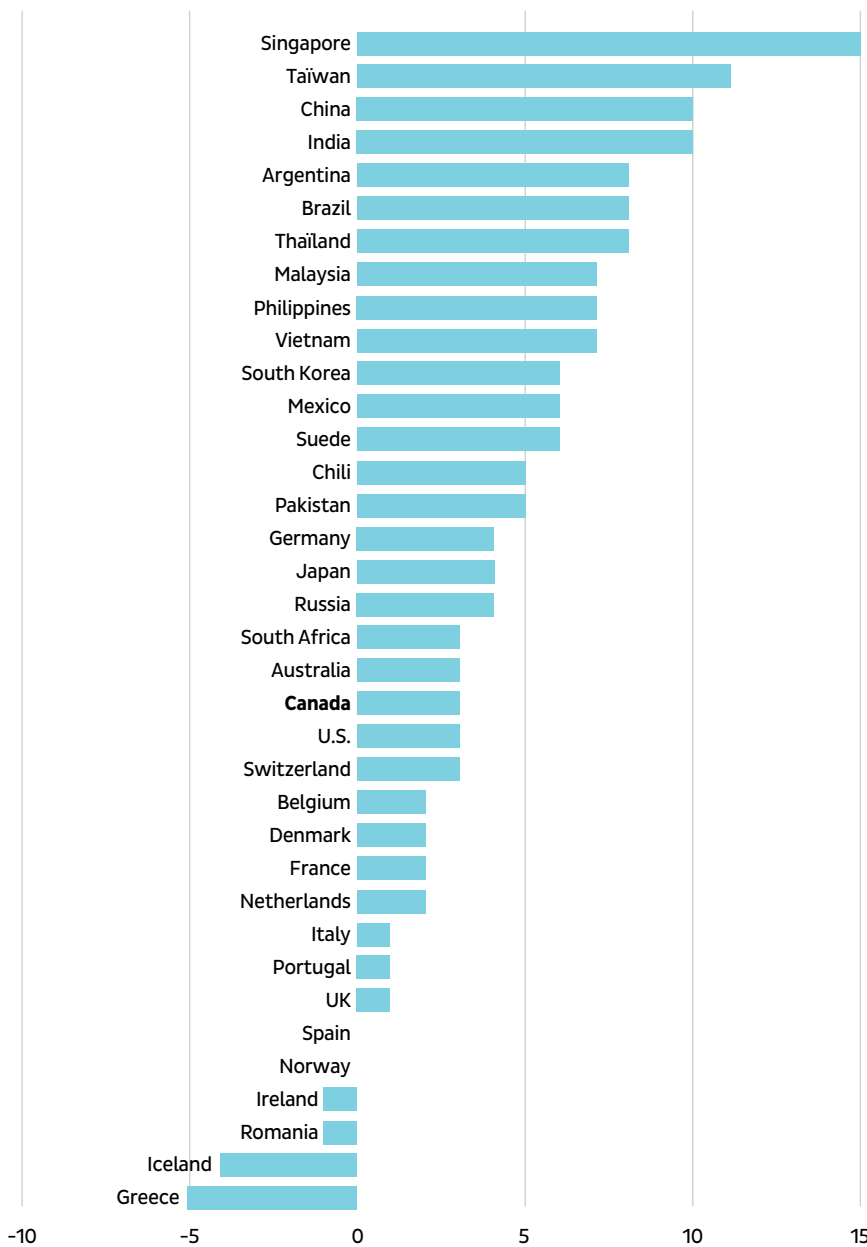
GOVERNMENT DEBT
(% OF GDP), 2011¹



¹ Source: OECD. OECD Economic Outlook No. 90. Updated on December 5, 2011 (except figures for Québec).

² According to a study by the Ministry of Finance in 2010.

REAL GDP GROWTH RATE FOR SELECT COUNTRIES IN 2010



3. RISING POWER OF EMERGING ECONOMIES

The opposite is true for the world's emerging economies, most of which are in the midst of a period of accelerated economic development.

Over the past five years, the BRIC countries (Brazil, Russia, India and China) and other emerging economies, primarily in Asia, have been responsible for 72% of global economic growth.

The World Bank predicts that the BRIC countries will achieve an average annual growth rate of 4.7% between 2011 and 2025, which is more than double what it forecasts for the most developed nations.

According to the OECD, the BRIC countries will see their middle-class populations—i.e., consumers—swell by 1 billion in the next decade. This is roughly equivalent to the population of the United States and the European Union combined.

China is already the world's biggest importer. By 2020, it will overtake the U.S. as the premier economic power, based on the size of its GDP.

The accelerated economic development of emerging economies will have a number of repercussions on the global economy :

- Their enormous appetite for natural resources, which serve as the catalyst for economic growth, will drive prices for industrial metals and energy higher over the medium and long term.
- Most direct foreign investment will be diverted to these countries, because of their superior yield prospects for investors and manufacturers.

- Manufacturing activity will continue to shift in favour of emerging economies, due to lower labour and production costs.

- Businesses in so-called emerging nations will provide fierce competition for American and European markets.

- These countries will have an increasing ability to retain their own highly skilled workers, and even attract workers from industrialized countries—representing a 180-degree turn in the global labour market compared with the situation to date.

DESTINATION OF QUÉBEC'S INTERNATIONAL EXPORTS, 2010

| | Diversification of trade % value of Québec exports, 2010 | Market-dominant country and share |
|-------------------------------|---|---|
| North America | 70.7 % | United States: 98.2 % |
| Central America | 1.1 % | Bahamas: 21.3% Trinidad and Tobago: 17.7% |
| Western Europe | 13.1 % | United Kingdom: 24.8% Germany: 15.3% Netherlands: 12.9% France: 12.9% |
| Asia (excl. Middle East) | 7.2 % | China: 45.8% Japan: 18.7% India: 10.1% |
| South America | 2.6 % | Brazil: 54.5% Chile: 10.2% |
| Middle East | 2.6 % | Egypt: 19.5% Turkey: 17.0% Saudi Arabia: 15.9% United Arab Emirates: 12.6% |
| Eastern Europe | 1.2 % | Russia: 54.9% Poland: 9.4% |
| Oceania | 0.8 % | Australia: 83.3% |
| Africa (excl. Middle East) | 0.7 % | South Africa: 21.0% Nigeria: 18.5% Algeria: 13.2% |

Source: Industry Canada, Trade live, based on data from Statistics Canada - Sept. 2011

« CHINA, BY 2020, WILL BECOME THE WORLD'S LARGEST ECONOMY BY THE SIZE OF ITS GDP, UNSEATING THE UNITED STATES »

4. OUTLOOK FOR QUÉBEC

Québec must take a long, hard look at these new global economic realities and adapt its strategies accordingly.

Further diversification of our export markets is vital so we can tap into the growth of emerging economies. While American and European markets will continue to be important to us, they will be hampered by significant structural problems. Remaining largely dependent on them would therefore appear to be an ill-advised strategy.

In recent years, Québec has begun diversifying its export markets. As a result, the percentage of Québec goods exported to the U.S. dropped from 83.8% in 2002 to 69.5% in 2010. During the same timeframe, the share of Québec goods exported to Europe increased from 9.2% to 14.3%.

Despite substantial efforts in recent years to strengthen our economic ties with emerging countries,

India and China in particular, trade between Québec and the BRIC countries is still weak. In 2010, only 5.8% of our international exports were to these countries.

Québec's manufacturing sector will continue to be under pressure, primarily because of growing competition from emerging economies and the robust Canadian dollar.

As for the relative size of the manufacturing sector in the Québec economy, it continues to be on the decline. In 2000, it accounted for 22.8% of Québec's GDP but by 2010, it had dipped to 14.9%, just below the critical 15% threshold. It bounced back slightly in 2011.

This is partly attributable to the development of the service sector, which is expanding in every modern economy. But it is also the result of the global shift in manufacturing and industrial activity towards emerging economies, where labour and other production costs are lower.

Moreover, as businesses continue to develop in emerging countries, they will also be eyeing the vast American and European markets and will therefore pose a significant competitive threat to Québec's traditional export markets.



QUÉBEC'S
STRONGEST
ASSETS IN A
CHANGING
WORLD

« QUÉBEC HAS A NUMBER OF UNDENIABLE ASSETS »

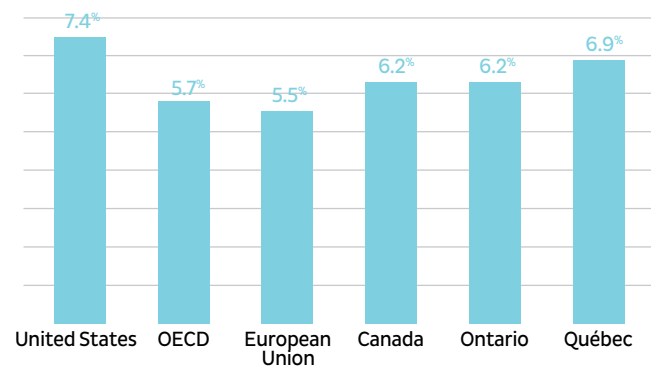
Québec has a number of undeniable assets that it must leverage if it is to become a key player in the new global economic order and ensure its continued prosperity. Its most notable competitive advantages are as follows.

1. SKILLED LABOUR IN A WIDE RANGE OF DISCIPLINES

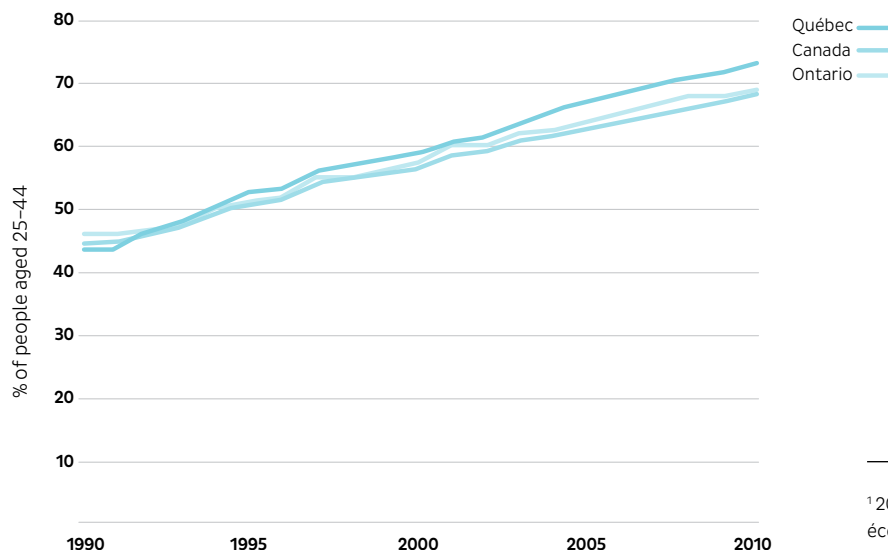
Québec is one of the leaders among U.S. states and Canadian provinces in terms of education spending as a percentage of GDP.¹

The Québec government subsidizes a very broad network of vocational, technical and university institutions in Montréal and in all the province's regions. Very few societies have such a comprehensive and widespread education infrastructure. These investments have yielded results. In 2009, 71.6% of Québécois aged 25 to 44 had completed a postsecondary or university program, compared with 68% in Ontario and 66.9% Canada-wide. And it is a well-known fact that workforce participation increases as education levels increase.

EDUCATION SPENDING (% OF GDP)



PROPORTION OF PEOPLE AGED 25-44 WITH A POSTSECONDARY DIPLOMA OR DEGREE



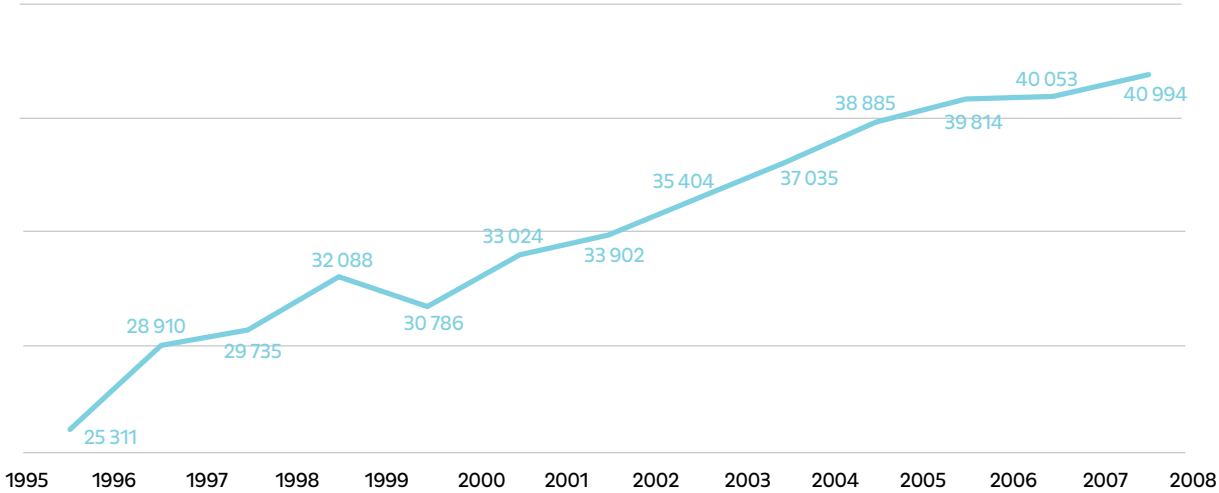
¹ 2006 figures. Source: CIRANO. Le Québec économique 2010. Produced under the supervision of Marcelin Joanis and Luc Godbout.

To a large extent, Québec has caught up to other developed societies in terms of the percentage of university graduates in its population. But further efforts are required in order to strengthen vocational education and, in particular, technical training at the CEGEP (junior college) level. The majority of jobs in the Québec marketplace currently require training in a vocational or technical field, which is precisely why it is critical to increase the number of graduates of these programs.

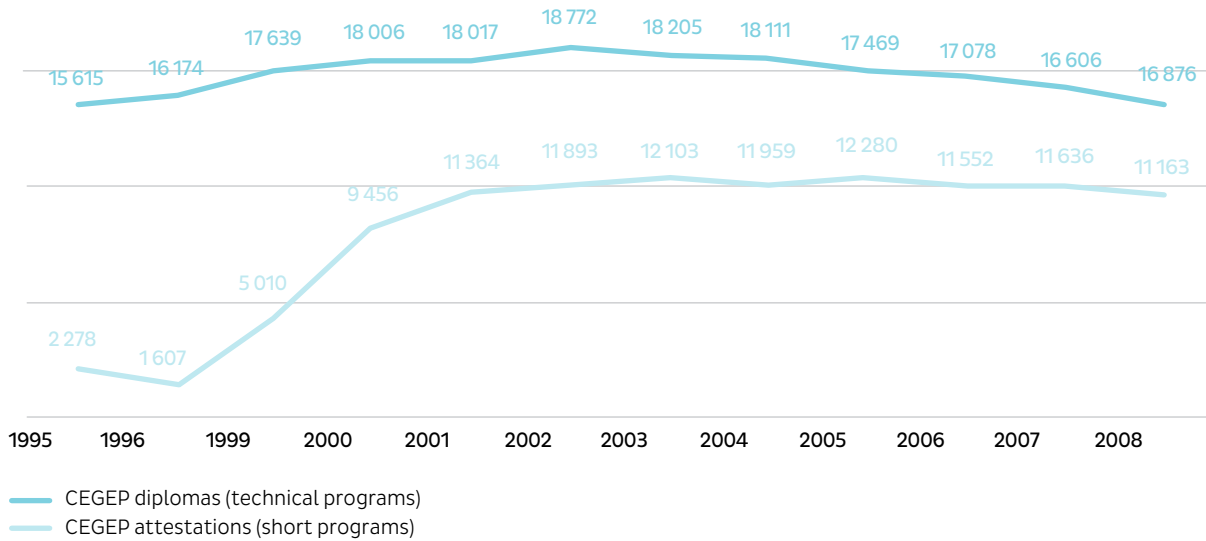
The CEGEP network, despite receiving \$1.7 billion per year in government funding, is clearly finding it more difficult to train highly skilled technicians. Together, the 48 public CEGEPs and 4 private CEGEPs in Québec turn out a mere 16,000 technicians every year, which does not come close to meeting the demand for specialized labour in an increasingly technology-oriented economy. CEGEPs also offer short-term training programs, which chiefly cater to the active workforce.

It is worth pointing out that there has already been an improvement in vocational education, i.e., training programs that lead to a trade occupation. Although the demand for skilled labour in these fields still outweighs supply, the number of vocational school graduates climbed more than 60% between 1995 and 2008.

VOCATIONAL PROGRAM GRADUATES



TECHNICAL COLLEGE GRADUATES

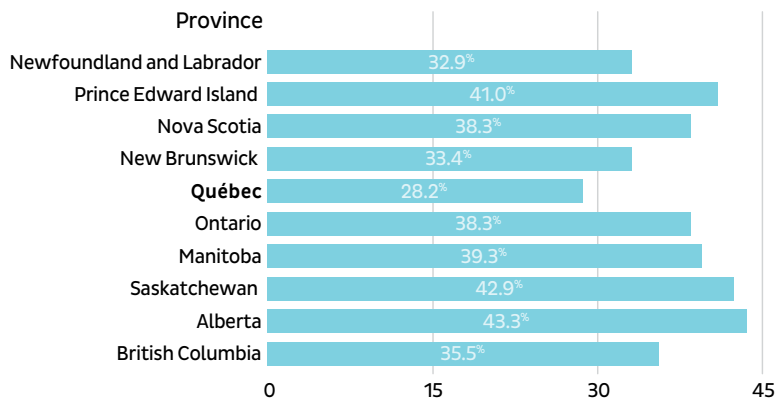


Given current population trends in Québec, i.e., the relative decline in the number of young people and the aging workforce, it is important to actively attract more young people to fields where the demand for skilled labour is high. Matching training and employment needs is essential to grow our economy. This requires employers and educational institutions to work together more closely.

Additional efforts to train employees will also be required, especially on the part of employers. With the decrease in the number of young people, businesses have no other choice but to train workers to adapt to new technologies, new production processes and innovative ways of providing services. In this area, Québec's businesses do not appear to be investing heavily enough. Compared with employers in neighbouring provinces, Québec's employers are lagging behind, which is a worrisome trend in a competitive marketplace.

The Québec-wide network of training institutions has a role to play in preparing the active workforce of today and tomorrow—and this role may increase in the coming years. Businesses' own training resources must also be utilized. Skilled workers are not necessarily doing the jobs that would allow them to realize their full potential. In this regard, there is a need to pay closer attention to workplace organization, in both the public and the private sector.

PROPORTION OF CANADIANS AGED 25 TO 64 WHO PARTICIPATED IN JOB-RELATED EDUCATION OR TRAINING, BY PROVINCE, 2008¹



¹ Source: Statistics Canada. Access and Support to Education and Training Survey (ASETS), 2008.

« QUÉBEC IS VERY RICH IN MINERAL RESOURCES, RANKING AS ONE OF THE 10 LARGEST MINING PRODUCERS IN THE WORLD »

2. ABUNDANT SUPPLY OF CLEAN, RENEWABLE ENERGY

With energy costs soaring and the green economy gaining momentum, Québec boasts a considerable advantage: readily available, clean and renewable sources of hydroelectric power. In fact, Québec ranks as the world's fourth largest producer of hydroelectricity.

A stable, reliable supply of very competitively priced energy strengthens the strategic position of many Québec industries. As a result, Québec is now the third largest producer of aluminium in the world, which in turn has allowed the development of a major technological cluster, a strong consulting engineering community and a network of world-class equipment manufacturers and suppliers.

Hydroelectricity also generates fewer pollutants. That means that aluminium produced in Québec, for example, is six times cleaner than aluminium produced in China. An abundant, reliable and competitively priced source of energy is an

important draw for production facilities looking for new locations and a convincing argument for foreign investors eyeing the Québec market.

The Québec government's Plan Nord includes estimated energy investments of \$47 billion over the next 25 years, which would enable Québec to further develop its hydroelectric potential and its wind power resources, which are a natural complement to hydroelectricity.

Despite everything that hydroelectricity has to offer, half (51%) of Québec's energy needs are met with hydrocarbons (38% oil and 13% natural gas). Electricity is used to fulfill another 38% of these needs, and the remaining 11% is divided between biomass (10.4%) and coal (1%).

Almost all of the hydrocarbons we use in the course of a year to support our economy are imported, representing a total cost of nearly \$12 billion.

The findings of major exploration initiatives in five sedimentary basins in Québec (Gaspé, Anticosti, Îles de la Madeleine, St. Lawrence Lowlands and the St. Lawrence Estuary) have confirmed the presence of oil and natural gas reserves in Québec. The possibility that some of our imported fossil fuels may be replaced with locally sourced energy represents a major change. These resources may generate a great deal of wealth over the medium term.

Developing this economic potential, however, must be done in strict accordance with environmental regulations and prioritize the social acceptability of these projects. The economic benefits of this new industry must be explained more clearly to the public.

¹ In the Gulf of St. Lawrence, off the Îles de la Madeleine.

3. EXCEPTIONAL MINING POTENTIAL

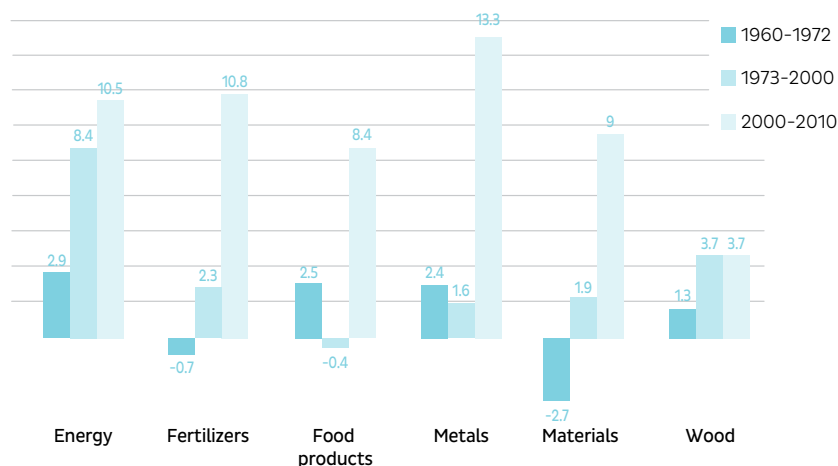
Québec is very rich in mineral resources, ranking as one of the 10 largest mining producers in the world.

Northern Québec boasts significant amounts of nickel, cobalt, zinc, copper, iron and other ores, as well as gold, platinum and diamonds. Also found within our borders are lithium, vanadium and rare earth elements that are more and more in demand by high-tech industries.

In the current economic climate, Québec has a unique opportunity to develop its technological and environmental expertise and forge a network of world-class suppliers and equipment manufacturers. Québec is already home to no fewer than 3,800 suppliers and equipment manufacturers in the mining sector, and these businesses are beginning to market their expertise in other countries. Since 2000, exports by Québec suppliers and equipment manufacturers have grown 14% a year on average.

This tax system includes royalties, various taxes, including tax on profits, and the development of infrastructures payable by companies. In September 2011, PricewaterhouseCoopers (PwC) compared the situation of mining industries in Québec with those in other provinces. They concluded that in Québec the two levels of government withhold the equivalent of 41% of mining companies' profits, compared with the Canadian average of 36.8%. The primary cause for this is the higher royalty rates in Québec, which recently climbed

AVERAGE ANNUAL GROWTH RATE IN THE PRICE OF SELECT RAW MATERIAL CATEGORIES (%)



To date, only 20% of the province has been assessed for subsurface minerals. The possibility for creating wealth in this regard is therefore excellent, especially in the very promising rare earths sector.

In the past few years, Québec has experienced a mining boom, driven by the higher price of base metals. Mining investments climbed to a record \$2.9 billion in 2010, up 43% over the previous year. This boom will likely continue for several years, if investments in exploration—which were projected to grow by over 40% in 2011 to reach a new high of \$718 million—are any indication. And the increase in the base price of metals is naturally fuelling investor interest.

A number of other countries also boast significant mineral resources, some of which are located near major markets. Australia, for one, is in a much better position than Québec to supply Asian markets. As the Québec government explores ways of maximizing the economic benefits of developing these non-renewable resources, it must also adopt a competitive overall tax system for mining companies, failing which they will simply relocate their investments to more accommodating countries.

from 12% to 16%. The overall tax burden applicable to the mining sector has decreased everywhere in Canada except Québec. Four years ago, Québec had the lowest tax burden in the country. Today, it is the fourth highest in Canada in terms of taxes and royalties paid by mining companies.

« AEROSPACE INDUSTRY CONSISTS OF 234 COMPANIES, PROVIDES 40,200 JOBS »

4. CUTTING-EDGE, WORLD-CLASS INDUSTRIES

Québec is home to several cutting-edge, world-class industries, including the aerospace industry, which comprises 234 businesses and provides 40,200 jobs. Québec is the world's sixth largest player in this sector in terms of sales. The aerospace industry was Québec's top manufacturing exporter in 2009, with 80% of its production sold to foreign markets.

Québec is internationally recognized for its expertise in aluminium, nanotechnology, health sciences and medical research. It has developed high-level know-how in the IT sector. Its state-of-the-art energy infrastructure has also led to the creation of international companies in the civil engineering and green technology sectors.

In addition, Québec boasts an extensive research infrastructure, along with R&D and innovation incentives, to support cutting-edge sectors. R&D spending as a percentage of GDP has almost doubled in Québec over the past 20 years.

5. STABLE, RELIABLE FINANCIAL INSTITUTIONS

During the 2008–2009 financial crisis, banking institutions in many countries suffered considerable losses. Some even went bankrupt. Canadian banks emerged from the crisis relatively unscathed. Banks headquartered in Québec are in excellent financial health. The Desjardins Group is one of the world's leading credit unions.

These financial institutions have maintained their ability to support business development while accommodating the needs of individuals.

Québec also has several large companies, mutual insurance firms and cooperatives operating in the property and personal insurance sector. A number of insurance companies have their head offices in the province. These businesses are pursuing their growth, specifically by taking market shares from other provinces.

In the past few years, Québec has developed a full-fledged venture capital industry, which comprises public institutions (including the Caisse de dépôt et placement du Québec), tax-advantaged funds (including the Fonds de solidarité FTQ and Capital régional Desjardins) and private sources of capital. The Montréal Exchange specializes in trading derivatives.

Finally, Québec possesses its own financial regulatory agency known as the Autorité des marchés financiers. Furthermore, a number of prominent firms offer their services in this regard to companies in Québec and elsewhere, particularly accounting and audit firms, legal services firms, IT companies and specialized human resources management companies.

Together, these institutions and their partners offer investors and companies a highly competitive, business-friendly environment.



KEY CHALLENGES TO OVERCOME

As we have just outlined, Québec boasts a number of major strengths that will help ensure its prosperity in the coming decade. However, to leverage these strengths and achieve its full economic development potential, it also has a number of challenges to overcome. Following are the issues that Québec needs to prioritize.

1. DEVELOPING AND NURTURING AN ENTREPRENEURIAL CULTURE

It is a well-known fact that we lag behind in terms of entrepreneurial performance. Long-term comparisons with the rest of Canada clearly indicate an entrepreneurial deficit in Québec. The rate of entrepreneurship in Québec is falling steadily and lags behind other provinces. In its entrepreneurship strategy, published in fall 2011 under the title *Foncez, tout le Québec vous admire* (Go for it! All of Québec admires you), the Québec government concurs with this assessment.

The FCCQ has identified two major challenges to entrepreneurship in Québec.

Challenge #1: Developing an entrepreneurial culture to generate new businesses.

To instil a more entrepreneurial dynamic within our society, we have to promote a set of entrepreneurial values, models and behaviours. A thriving entrepreneurial culture is an invaluable driving force for a society and helps foster an environment conducive to sustainable wealth creation. The development of a strong entrepreneurial culture is far from incompatible with Québec culture—it reinforces the Québec model, which draws much of its vitality from small and medium-sized businesses. It is therefore vital to facilitate the start-up of new companies.

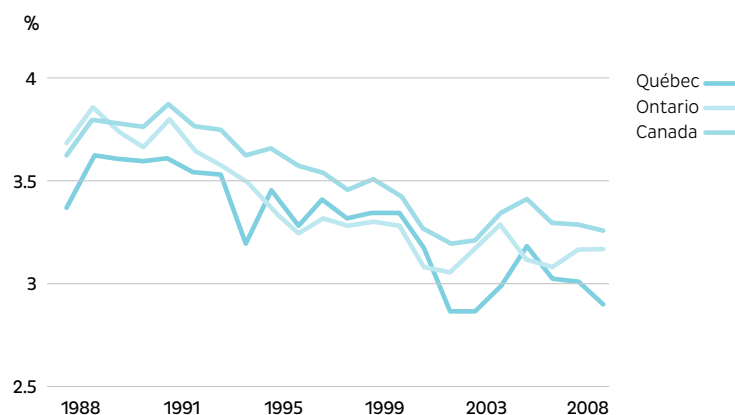
Québecers' lack of interest in entrepreneurship also means a lower rate of business creation, sluggish growth for existing companies and under-investment on the part of the private sector. The lack of young entrepreneurs will have significant repercussions on the number of Québec-owned businesses and the ability to retain head offices in the province.

Challenge #2: Grooming the next generation of entrepreneurs and passing the torch.

According to the Ministère du Développement économique, de l'Innovation et de l'Exportation, some 55,000 entrepreneurs will be stepping down or retiring in the 10-year period between 2008 and 2018. A mere 26,800 new entrepreneurs are lined up to take their place.

Business succession is a complex process with a wide range of economic, financial and human facets. Considering the high number of CEOs who will be handing over the reins of their companies in the coming years, it is vital to preserve the economic heritage that has been cultivated since the Quiet Revolution and ensure the continued growth of existing businesses. It is crucial that the transfer of Québec-owned businesses from one generation to the next be successful, failing which our industrial and business infrastructure may be weakened and numerous head offices and decision-making hubs may be lost.

RATE OF ENTREPRENEURSHIP¹ - QUÉBEC, ONTARIO ET CANADA, 1988-2008



¹ Business owners with paid help (based on information from a Statistics Canada labour force survey, excluding self-employed workers), in the population aged 15 to 79.

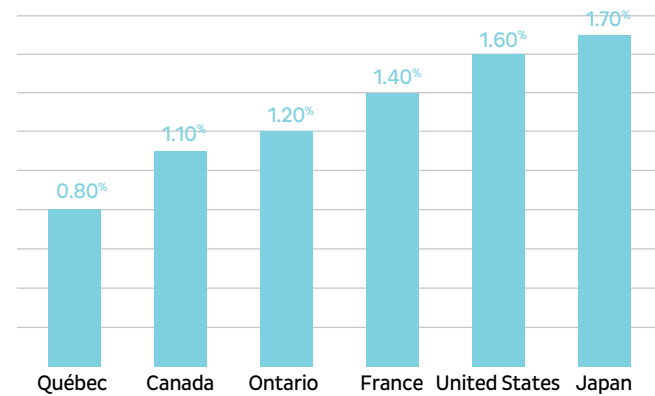
2. LOW PRODUCTIVITY

Over the past 25 years, productivity rose an average of less than 1% per year in Québec. This stands in sharp contrast to our main rivals in the rest of Canada and other industrialized countries.

In response to the imminent demographic decline and the strong Canadian dollar, which is trading at par with the U.S. greenback, major gains in productivity must be made in order to achieve an acceptable level of economic growth. This is, without a doubt, the biggest economic challenge facing Québec between now and 2020. Québec has no choice but to bridge the productivity gaps between it, the rest of Canada and the United States.

To accomplish this goal, it is imperative to boost companies' investment in machinery and equipment manufacturing as well as in information technology. It is also essential that we raise the skill level of our workforce.

AVERAGE ANNUAL INCREASE IN WORK PRODUCTIVITY (1982-2008)



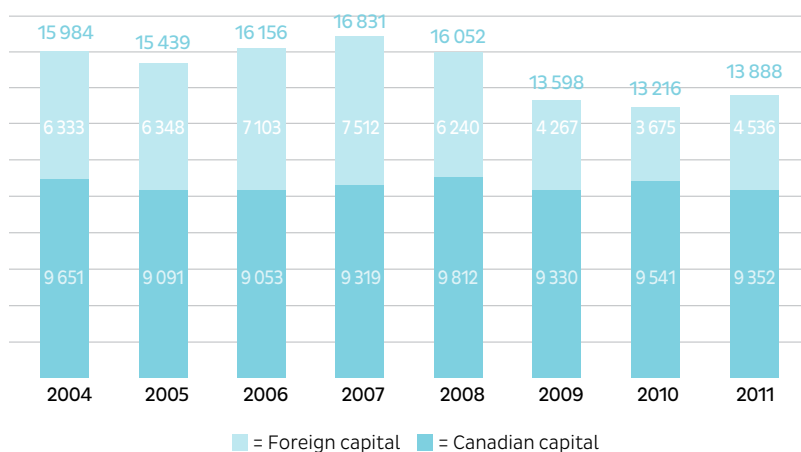
In other words, we need to produce more goods and offer more services per hour worked, by being better equipped and better trained and by embracing a workplace organization that optimizes the contribution of every employee. This is a necessary exercise in both the private and the public spheres.

3. LOW LEVEL OF PRIVATE INVESTMENTS

The private sector in Québec has been struggling with a kind of under-investment for a long time. And the trend shows no signs of easing off. Although Alberta's heavy investments in the oil sector make interprovincial comparisons very difficult, it is nevertheless clear that Québec's rate of private investment has been chronically lower for many years. Between 2000 and 2004, Québec's share of the private investment pie in Canada was only 16.2%. Between 2005 and 2009, this dropped further still to 13.1%. By developing the mining sector, however, we may eventually be able to start turning this trend around.

The graph on the left shows how investments in machinery and equipment in Québec have changed in recent years, as well as the relative share of these investments from foreign (non-Canadian) sources. To boost productivity, it will be essential to invest more in machinery and equipment, as well as in information technology.

CAPITAL INVESTMENTS: MACHINERY AND EQUIPMENT

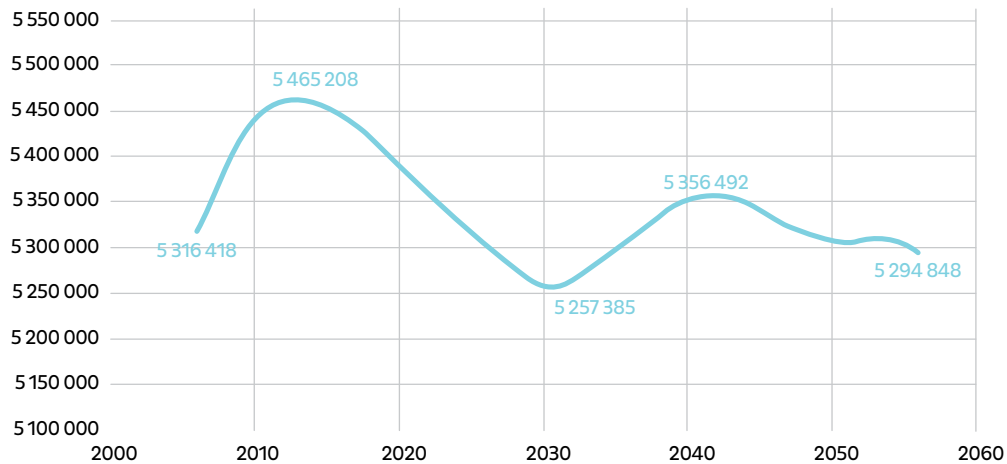


¹ Source: Statistical Institute of Quebec.

4. SHRINKING LABOUR SUPPLY

As of 2013, the Québec working-age population will start to shrink. This is in stark contrast to the situation that existed until now, where the working-age population grew by 5% to 10%, or more, every decade¹.

CHANGES IN THE POPULATION AGED 15–64 IN QUÉBEC, 2006 TO 2056



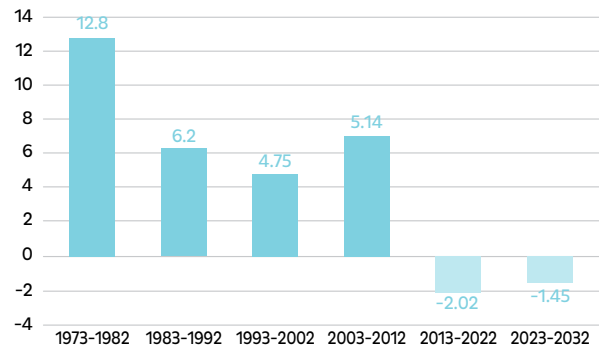
By 2020, it is estimated that there will be 1.4 million jobs to be filled in Québec. Of these, 316,000 jobs, or nearly 25%, will be created due to economic growth (net job creation), while 1.1 million jobs (more than 75%) will be retirement replacements.

These positions will be filled primarily by:

- young adults (those currently aged 5 to 24)
- increased workforce participation by people aged 55+
- immigration
- lower unemployment rates.

Over and above the general labour shortage, the decrease in the overall number of people of working age will obviously exacerbate the scarcity of available workers and make corporate recruiting and workforce renewal processes even more complex. A survey of more than 300 Québec companies conducted by the FCCQ in 2008 and 2010 indicated that over 50% of them were already experiencing difficulties arising from a shortage of labour. The repercussions will naturally vary from region to region, and from industry to industry.

POPULATION GROWTH, AGES 15–64 IN QUÉBEC (IN %)



In addition to this, there is also the issue of ensuring job seekers and workers are suitably qualified. A third of the jobs that will be created between now and 2020 (108,000 out of 316,000) will require a vocational (high school) or technical (CEGEP) education.

¹ Source: Statistical Institute of Quebec.

« PENSIONS OF PUBLIC SECTOR EMPLOYEES ARE MORE GENEROUS. THIS SITUATION CONTRASTS SHARPLY WITH THAT OF PRIVATE SECTOR EMPLOYEES »

5. PRECARIOUS PUBLIC FINANCES

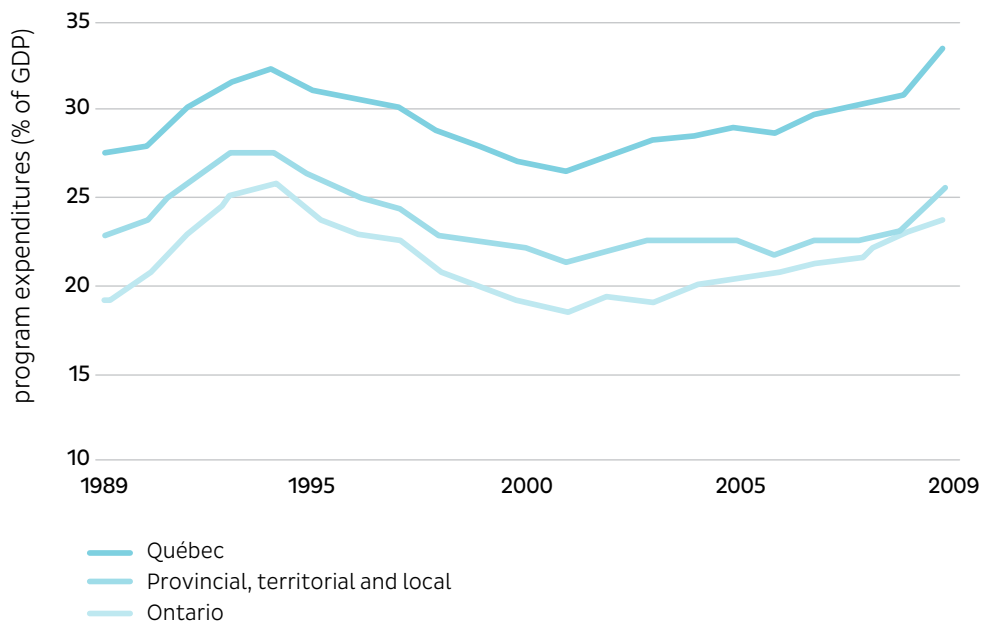
Québec's public finances weathered the financial and economic crisis of 2008 better than did those of our main economic partners. According to Ministère des Finances estimates, Québec should have its budget balanced once again in 2013–2014, before the federal and Ontario governments.

As indicated earlier, however, Québec's debt level is the highest in Canada. This represents a real burden

on the economy and on Québec society as a whole. Should interest rates rise in the coming years, there would be a marked increase in debt service costs, which would severely hamper the government's fiscal flexibility. And the demographic trend means that there will be fewer and fewer working-age people to shoulder this debt. In 1970, there were nearly eight workers for every retiree in Québec. In 20 years, this ratio will plummet to 2.1:1.

With a tax burden that is already higher than the Canadian average, Québec cannot rely on new taxes to alleviate this debt. Sooner or later, government spending—which is already higher than anywhere else in Canada—will have to be reined in.

GOVERNMENT SPENDING AT THE PROVINCIAL, TERRITORIAL AND LOCAL LEVEL, QUÉBEC, 1989-2009



In addition to this already very worrisome problem, there is the issue of the growing actuarial deficits of public and parapublic pension plans. Almost all employees in government agencies, Crown corporations, universities and municipalities (the entire public sector) have a defined benefit pension plan. After contributing to the plan for 30 or 35 years, retirees are entitled to an annuity or pension, the amount of which has been established in advance and is virtually 100% guaranteed.

Public-sector pension plans are generous, especially when it comes to municipal employees. By combining this pension and the Régime de rentes du Québec, a typical municipal employee who retires at age 60 will receive an amount equal to 107% of his or her net income as a full-time employee.

This is in sharp contrast to the reality within the private sector. Only 17% of private-sector workers have access to a defined benefit pension plan, while 66% of those who work for a private company have no employer pension plan in place whatsoever. If corrective action is not taken in the very near future, the gap in retirement income between public- and private-sector employees will become untenable.

This is further aggravated by the deficits, oftentimes major, affecting many pension plans. In December 2010, the Régie des rentes du Québec estimated that 51% of defined benefit pension plans are in a precarious financial position, with a solvency ratio under 80%. Clearly, pension plans must reduce their deficit as quickly as possible. Otherwise, the cost to the next generation will be exorbitant.

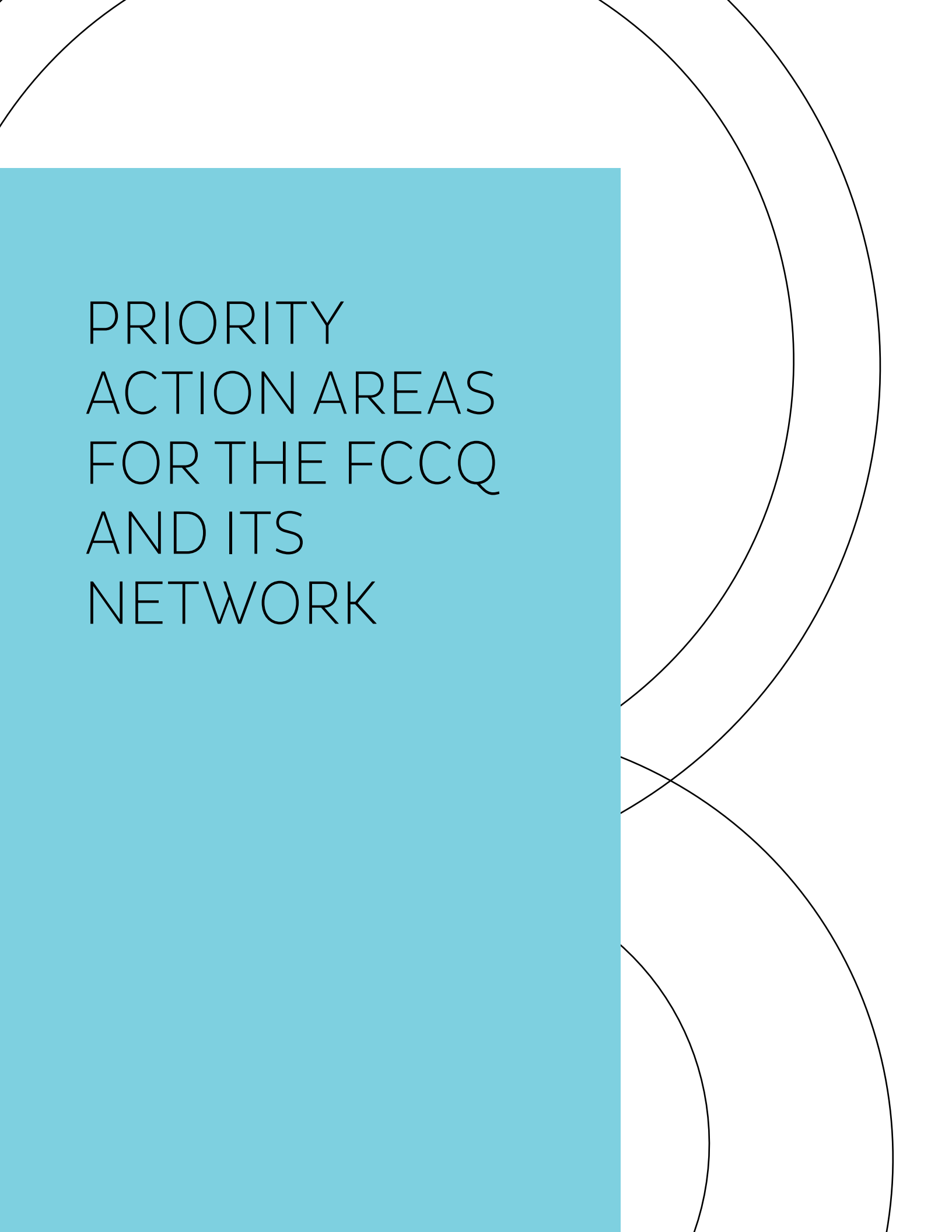
If governments do not act swiftly, the tax burden on taxpayers and businesses—in particular those in major cities—will increase considerably to pay for public-sector retiree benefits. Public-service employees are certainly entitled to receive a suitable pension income. But they must also contribute to reducing the cost of these plans and sharing the plans' associated financial risks in a more equitable way.

6. HESITATION IN MAKING SOCIETAL CHOICES

Over the years, Québec has woven a generous social fabric, the cost of which is becoming more and more burdensome. Compared with Ontario, and taking into account the provinces' respective populations, Québec spends \$5 billion more on this system.

Weak economic growth and slower business productivity will require us as a society to make some difficult choices between those things we want to keep and the sacrifices we will have to make to pay for them. Many people are convinced that our social programs can be preserved and even greatly enhanced by raising taxes on higher-income households and corporations. As a result, they tend to be resistant to major projects designed to create wealth. With many groups declaring these social programs “untouchable,” we will need to revisit the pertinence of a decision-making model based on absolute consensus.

¹ Source: Commission nationale sur la participation au marché du travail des travailleuses et travailleurs expérimentés de 55 ans et plus. Report submitted in October 2011.

The image features a teal-colored rectangular area on the left side. To the right of this rectangle, there are several overlapping, thin black circular outlines that create a sense of depth and movement. The text is centered within the teal area.

PRIORITY
ACTION AREAS
FOR THE FCCQ
AND ITS
NETWORK

Taking into consideration the economic outlook, as well as Québec's strengths to be leveraged and the challenges to be overcome, four priority action areas have been singled out for the Fédération des chambres de commerce du Québec's 2012–2020 economic vision. These priorities encompass the entire Québec economy and transcend sectoral and regional distinctions.

1. PRODUCTIVITY

Increasing productivity in the Québec economy must become a top priority for the government and all economic stakeholders by 2020. The Fédération des chambres de commerce du Québec will make this issue its battle cry.

With stiff competition awaiting us in export markets and our dollar trading at par with the U.S. greenback, it is critical for our companies to boost their productivity if we wish to preserve Québec's ongoing prosperity.

It is urgent that we improve on our past performance in terms of productivity, given the demographic shifts on the horizon in Québec.

In the past 30 years, economic growth averaged 2.1% per year. The three key drivers of this (modest) increase in GDP were:

- the demographic profile, i.e., the rise in the working-age population
- the employment rate, i.e., the percentage of working individuals; much of this increase is attributable to the greater number of women in the job market over the past 30 years
- productivity.

Over the next 20 years:

- the working-age population will not keep growing; the actual number of people in the workforce will decrease
- the employment rate cannot continue to grow at the same fast pace as it has in the past
- if we don't make significant progress in productivity, economic growth will be anaemic (less than 1% per year), which will make public-service funding problematic. Furthermore, the gap between the standard of living in Québec and that of our Canadian and U.S. neighbours will widen further to reach untenable levels.

ECONOMIC GROWTH REPORTED (1981–2008) AND FORECAST (2010–2030) IN QUÉBEC IF EMPLOYMENT RATES AND PRODUCTIVITY GROWTH CONTINUE AT THE SAME PACE AS IN 2008 (%)

| | Average 1981–2008 | Average 2010–2030 |
|---------------------|----------------------|----------------------|
| Demographic Profile | 0.61 | -0.16 |
| Employment Rate | 0.49 | 0.05 |
| Productivity | 1.00 | 1.00 |
| Real GDP | 2.10 | 2.89 |

Source : Commission nationale sur la participation au marché du travail des travailleuses et travailleurs expérimentés de 55 ans et plus. June 2011.

« GIVEN THE SCARCITY OF SPECIALIZED LABOUR IN QUÉBEC, OUR SOCIETY MUST EMBRACE THE GOAL OF DRAMATICALLY REDUCING THE SCHOOL DROPOUT RATE BY 2020 »

Québec must set a goal of achieving a level of productivity that is equal to or better than the rest of Canada by 2020. Admittedly, this goal is an ambitious one, but in the current demographic and economic context, there seems to be little choice.

The FCCQ will work towards this goal by focusing on the main drivers of productivity: innovation, labour force training and investment in machinery and equipment.

Innovation is the key to any type of development. The considerable efforts that have been made by the government and the private sector in research and development are not yet yielding enough innovative applications. Bringing research results and innovations to market remains a challenge for which a suitable solution has yet to be found.

Innovation must be used as an indicator to gauge the results of various government programs and a priority for the government in its economic initiatives. Innovation is closely linked to productivity. The FCCQ's take on the government's business-oriented initiatives will be largely contingent on how effective these public initiatives are in bolstering innovation.

In the current budgetary context, it is essential for the government to concentrate its business-related efforts on measures designed to foster productivity and innovation. In terms of R&D, budgetary and financial constraints are not conducive to the dissipation of efforts. Instead, the focus needs to be on high-potential, forward-looking sectors where Québec is already a strong performer and has a competitive edge.

Education and labour training are also important keys to productivity. At every level and in every sphere of society, the issue of skills development needs to be at the top of the agenda. In schools, families, workplaces and institutions, the availability of qualified labour must be a central priority. As mentioned previously, a large percentage of the jobs of tomorrow will require a vocational, technical or university education. The latest figures from the Ministère de l'Éducation, du Loisir et du Sport put the rate of high school graduation among youth under 20 at an estimated 69%.

Given the scarcity of specialized labour in Québec, our society must embrace the goal of dramatically reducing the school dropout rate by 2020. We need to increase the proportion of high school graduates in the under-20 population to at least 80%.

Businesses also have an important responsibility in terms of training. They need to invest more in training their workers and organizing their workplace in a way that allows employees to regularly update their skills and encourages them to extend their participation in the workforce.

For several years, the FCCQ has considered labour force training to be a highly strategic issue. We will continue to pay particular attention to this issue, because we are convinced that productivity and innovation are largely dependent on the development of a better-trained, more skilled workforce.

Investment in machinery, equipment and information technology has an immediate impact on productivity. With increasingly sophisticated and prevalent communication technology, production costs can generally be reduced, which encourages businesses to stay in Québec and lessens the risk of their relocating to another country where labour costs are lower.

Québec taxation policy must be more supportive of these investments. The repeal of the capital tax is a first step in this direction. Given that most machinery, equipment and communications tools are imported, the strength of the Canadian dollar creates an environment conducive to the development of public policy aimed at stimulating these investments. It is essential to take advantage of this context.

These investments are necessary across the board, but nowhere are they more important than in the manufacturing sector. As a study carried out by Samson Bélair/Deloitte & Touche points out, a prosperous, economically diversified society requires a commitment to maintaining and even strengthening the manufacturing sector. Besides contributing to Québec's GDP, the manufacturing sector:

- accounts for 21% of jobs in Québec
- offers an average salary roughly 35% higher than other sectors
- is the most innovative sector of the economy, accounting for nearly half of corporate R&D spending
- is responsible for almost all (88%) of Québec's international exports.

« THE FCCQ IS COMMITTED TO FIGHTING INITIATIVES THAT INTERFERE WITH ENTREPRENEURIAL FREEDOM WITHOUT CONTRIBUTING ANY REAL ADDED VALUE »

2. ENTREPRENEURSHIP: STIMULATING ENTREPRENEURIAL CULTURE AND UPHOLDING THE LEGACY OF THE ENTREPRENEURS WHO BUILT THE QUÉBEC OF TODAY

A thriving economy is dependent on the creation, growth and transfer of businesses. Québec cannot achieve its objectives in terms of economic growth if it cannot inspire more people to go into business for themselves, either by starting up their own company or by taking over the reins of an existing one, thereby ensuring its growth.

The FCCQ will therefore ramp up its own efforts and reach out to a wide range of partners to shine the spotlight on our entrepreneurs and emphasize their contribution to Québec's economic and social development. The FCCQ will play an active role in all support programs aimed at new entrepreneurs and endorse government initiatives designed to foster the emergence, development and transfer of businesses.

By the same token, the FCCQ is committed to fighting initiatives that interfere with entrepreneurial freedom without contributing any real added value.

It is in this spirit that the FCCQ will work strategically towards:

- fostering entrepreneurial culture and the creation of new businesses
- promoting conditions that facilitate the transfer of business ownership. It is important to support the growth of existing companies and help ensure as many as possible remain under Québec ownership. The challenges inherent in business succession and transfer must be addressed.

Québec also needs to promote the development of world-class industries and networks of suppliers and equipment manufacturers to support these industries. The fact that Québec is already home to a number of international leaders in their respective fields is a draw for investors, businesses, highly skilled workers and knowledge institutions alike. Examples of this include the aerospace, aluminium and hydroelectricity sectors, as well as select niches in the IT, telecommunications and life sciences industries. These clusters of excellence must be strengthened and acknowledged as drivers of growth.

The FCCQ will build on its close ties with these leading businesses and strive to promote their role in the regional and provincial economy. It will advocate for the growth of these companies and fight to keep head offices in Québec. It will also encourage the adoption of public policy that facilitates the development of networks of suppliers and equipment manufacturers in current and future areas of excellence, including electrical transportation, environmental technologies and life sciences.

« *DEVELOPMENT MUST BE SUSTAINABLE; OTHERWISE, IT IS NOT DEVELOPMENT* »

3. ATTRACTING INVESTMENTS

Throughout its history, Québec has benefited from foreign direct investment to grow its economy. In recent years, it has developed its ability to offer venture capital and investment and development funds, but foreign investment is still very important—as a source of capital, in terms of the introduction of new technologies and as a contribution to the development of new markets.

Emerging economies are already provoking fierce competition in this regard, claiming the lion's share of foreign investments for their own in recent years. Québec must therefore make itself even more appealing to international investors in select strategic niches. This will be instrumental in helping us catch up where we have chronically lagged behind in terms of attracting private investment.

A number of stakeholders have a mission to seek out foreign investments. We feel that, in the current global context, we should strive to better streamline these efforts in order to maximize the outcomes. Accordingly, the FCCQ welcomed the merger of Investissement Québec and the Société générale de financement du Québec.

Québec has numerous strengths it can utilize to attract foreign investment. It is therefore in our best interest to continue to develop clean, reliable and renewable energy, in order to maintain a competitive edge over rival countries.

Developing our tremendous mining potential will help us take advantage of the current international economic situation and the high price of industrial metals. The Plan Nord is an initiative that will promote the development of the mining sector and the growth of foreign investments.

We are on the verge of a mining boom in Québec, one of the offshoots of which promises to be the development of a network of suppliers and equipment manufacturers. This industrial sector includes specialized expertise in mineral exploration and development, consulting engineering, and the manufacturing of the equipment needed to extract and process metals. By strengthening this sector, we will maximize the economic benefits of the Plan Nord, benefits which will greatly outlast the useful life of the mineral deposits themselves.

We must also call attention to the availability of skilled labour in Québec. We are in a position to present potential investors with a wide range of options in terms of having access to a trained workforce and promoting training opportunities for employees.

Development must be sustainable; otherwise, it is not development. Not only must entrepreneurs comply with environmental regulations, they must take into consideration the social aspects of their projects. They are responsible for better explaining their initiatives to the community and ensuring a maximum of transparency in their communications.

The FCCQ will team up with developers and investors to ensure that economic considerations have been taken into account in the application of the principles of sustainable development.

4. FACILITATING DEVELOPMENT AT THE GOVERNMENT LEVEL

It is the role of government to create an environment conducive to business development and growth. Governments must put in place the conditions necessary to promote economic development. But they must also maintain their ability to establish national policy and settle certain disputes and conflicts that might hinder the development of projects that are of interest to all Québécois and that would be carried out under conditions that are suitable in a developed society.

Maintaining and developing public infrastructure, especially in the transportation sector, to facilitate the free flow of people and goods is also a government responsibility. This is a particularly important consideration in an export-driven economy and in a context of tight inventory control.

Montréal's aging infrastructure is a major concern and one whose impact on the economy is far from negligible. The current condition of the city's transportation facilities represents an obstacle to improved business productivity.

It is also important to ensure that our telecommunications infrastructure allows Québec to stay at the vanguard of the digital economy.

The FCCQ feels that it is critical for the government to deliver on the commitments outlined in its infrastructure renewal plan, i.e., to eliminate the maintenance deficit within a 15-year period (2007–2022).

Education remains the backbone of a modern, competitive economy. The postsecondary education sector needs to be more attuned to employers' requirements to ensure training matches employment needs.

The administrative and regulatory framework is still too complex and costly for businesses. The rules that apply to companies, especially where the approval of development and investment projects is concerned, must be easier to navigate. Additional efforts need to be made to further streamline administrative procedures and regulatory requirements. The FCCQ will strive to ensure public administrations comply with government commitments to eliminate some administrative and regulatory red tape for companies, especially where small and medium-sized businesses are involved.

The FCCQ will continue to keep close tabs on government intentions and actions. It will support governments' development initiatives and work towards improving existing measures and programs. The FCCQ will also vigorously oppose

government decisions that needlessly undermine our economic competitiveness.

It is incumbent on the government to ensure the sound management of public finances to avoid saddling the taxpayers of today and tomorrow with a heavy burden that is ultimately detrimental to our competitiveness. The FCCQ therefore invites the government to work towards shrinking public debt. Accordingly, we feel that an open, straightforward discussion about pension funds and retirement plans is in order, before Québec finds itself in the same situation as certain European countries.

Improving public finances requires the government to stay true to its core missions. The trend towards broadening its scopes of action must be controlled. There will be decisions to make, sometimes tough decisions, in terms of its choice of missions. For missions deemed high priorities, the government is bound to efficiently manage those budgets and to eliminate waste and redundancy. The FCCQ believes that choices need to be made and that the funds invested in the government's core missions must be managed efficiently.

CONCLUSION

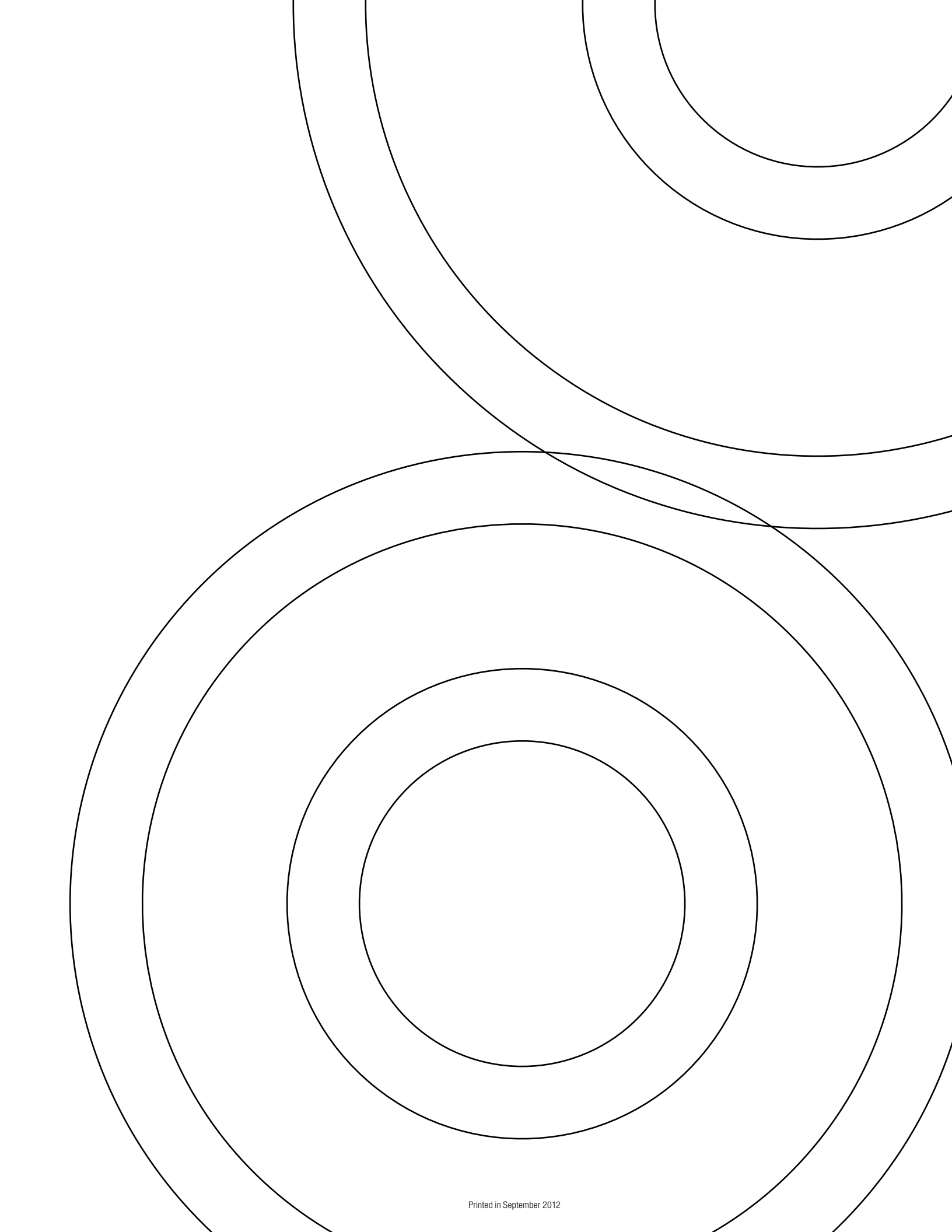
Québec's potential in terms of economic development is strong. But given our small domestic market, we need to focus on niches where we excel and where we can carve out a unique place for ourselves in the new global economic order.

That is why the wealth creation and prosperity are at the core of the economic vision put forward by the Fédération des chambres de commerce du Québec. By developing a proud entrepreneurial culture, Québec will be in a position to compete in the international arena.

The issues identified in this economic vision represent sizeable challenges, and the proposed priority action areas are broad in scope. Over and above strategies and concrete efforts, the FCCQ's central focus remains economic development. To foster growth and prosperity at every level, Québec needs to create wealth, leverage its resources and talents, export its materials, products and expertise, and hone its competitive edge. The FCCQ is committed to promoting the economic aspects of sustainable development with energy and conviction.

As it works to bring this vision to life, the FCCQ will produce a strategic four-year plan and annual action plans. It will make the necessary adjustments to its economic vision if any major changes occur, which is very likely given the instability of the markets and the vast potential of as-yet-untapped technological innovations.

This economic vision will guide the FCCQ's efforts and help map out the path it will follow in the years to come.



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