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SETTING UP A
BLEACHED KRAFT PULP MILL
AT ST-FELICIEN
1976-1980

CANADA / QUEBEC



APRIL 21, 1976

subsidiary agreement

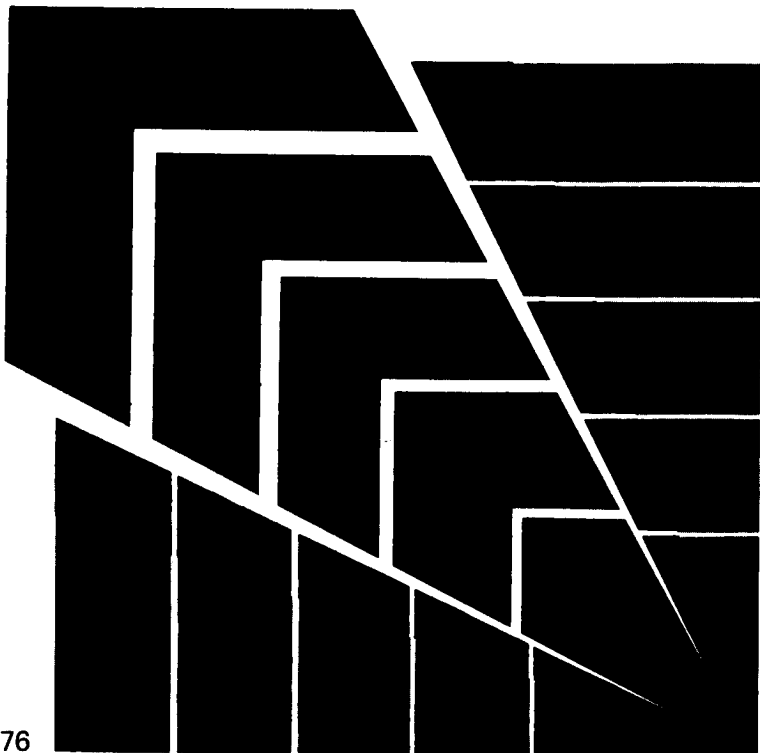


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SETTING UP A
BLEACHED KRAFT PULP MILL
AT ST-FELICIEN
1976-1980

CANADA / QUEBEC



APRIL 21, 1976

CANADA-QUEBEC
SUBSIDIARY AGREEMENT
ON SETTING UP A BLEACHED KRAFT
PULP MILL AT ST-FELICIEN
1976-1980

THIS AGREEMENT made this 21st day of April 1976

BETWEEN:

THE GOVERNMENT OF CANADA, (hereinafter
referred to as "Canada") represented by
the Minister of Regional Economic Expansion

OF THE FIRST PART,

AND: THE GOVERNMENT OF QUEBEC, (hereinafter
referred to as "Quebec"), represented by
the Minister of Intergovernmental Affairs
and Minister responsible for the Quebec
Planning and Development Bureau

OF THE SECOND PART.

WHEREAS Canada and Quebec signed a General Development Agreement on the 15th day of March, 1974, to achieve the following objectives:

- (a) to improve opportunities for productive employment and to consolidate employment in the traditional sectors;
- (b) to improve the standard of living;
- (c) to reinforce the industrial and urban structure of Quebec and promote the optimal development of the various regions;
- (d) to promote increased participation by Quebecers in their own development; and
- (e) to promote balanced development in Quebec in relation to the various regions of Canada.

AND WHEREAS the development of the forest industry can contribute to the achievement of these objectives;

AND WHEREAS the Province of Quebec continues to be the leading pulp and paper producer in Canada, producing close to one third of the national total, and this industry is very important to the Quebec economy;

AND WHEREAS one of the objectives stated by Canada and Quebec with regard to the forest products sector is to stimulate the creation of new companies;

AND WHEREAS the setting up of a bleached kraft pulp mill at St-Félicien by Donohue St-Félicien Inc. will help to achieve this objective;

AND WHEREAS Canada and Quebec mutually agree to continue their examination of the various development possibilities in the forest products sector;

AND WHEREAS the Governor in Council by Order in Council P.C. 1976-921 of the 20th day of April, 1976, has authorized the Minister of Regional Economic Expansion to sign this agreement on behalf of Canada;

AND WHEREAS the Lieutenant Governor in Council by Order in Council No. 1412-76 of the 21st day of April, 1976, has authorized the Minister of Intergovernmental Affairs and the Minister responsible for the Quebec Planning and Development Bureau to sign this agreement on behalf of Quebec;

NOW THEREFORE the parties hereto mutually agree as follows:

DEFINITIONS

1. In this Agreement:

- (a) "Schedule 'A'" means the Schedule containing the problems, objectives, and the financing program for work carried out by Donohue St.Félicien Inc.;
- (b) "Schedule 'B'" means the Schedule containing the distribution of costs and the disbursements provided to help finance the work program;
- (c) "Development Committee" means the Committee established pursuant to subsection 9(1) of the General Agreement;
- (d) "Management Committee" means the Committee established pursuant to subsection 7(2) of this agreement;
- (e) "Company" means Donohue St.Félicien Inc.;
- (f) "Deadline" means the latest date on which eligible work as specified in Schedule "B" can be completed;
- (g) "Term of this agreement" means the period from the date of this agreement until March 31, 1980;

- (h) "Subsidiary Agreement" means an agreement made pursuant to section 6 of the General Agreement;
- (i) "General Agreement" means the agreement made between Canada and Quebec on the socioeconomic development of Quebec, signed on the 15th day of March, 1974;
- (j) "Fiscal year" means the period commencing on April 1 of any year and terminating on March 31 of the year immediately following;
- (k) "Site Manager" means the Quebec Department of Industry and Commerce;
- (l) "Department" means the Department of Regional Economic Expansion;
- (m) "Quebec Minister" means the Minister responsible for the Quebec Planning and Development Bureau and includes anyone authorized to act on his behalf;
- (n) "Federal Minister" means the Minister of Regional Economic Expansion and includes anyone authorized to act on his behalf;
- (o) "Ministers" means the Federal Minister and the Quebec Minister;
- (p) "Bureau" means the Quebec Planning and Development Bureau.

PURPOSE

- 2. (1) The purpose of this Agreement is to enable Donohue St-Félicien Inc. to establish a bleached kraft pulp mill at St-Félicien, County of Roberval, Province of Quebec.
- (2) Without restricting the meaning of the foregoing, the purpose of this agreement is, more specifically, to enable the company:
 - (a) to set up a bleached kraft pulp mill having an annual capacity of 262 000 tons; and
 - (b) to modernize its sawmills and consolidate employment in the sawmills of the Lac St-Jean region.
- 3. (1) Canada and Quebec shall contribute to the financing of the work program as described in Schedule "A", in the manner specified in Schedule "B", to the extent that this work is completed within the term of this agreement.

- (2) Canada's contribution to the financing of the work program shall be 60% and that of Quebec shall be 40%.
4. Notwithstanding any other provision of this agreement, subject to the provisions of section 11, the total financial contributions by the Department and the Bureau shall not exceed \$30 000 000 and \$20 000 000 respectively, thus bringing to \$50 000 000 the sum allocated to this agreement.
5. This agreement, including its Schedules, may be amended with the written consent of the Ministers, with the exception of section 4, which may only be amended with the consent of the Governor in Council and the Lieutenant-Governor in Council.
6. Eligible expenses incurred prior to the signing of this agreement, including those relating to contracts awarded and purchases made, shall be deemed to be in accordance with and acceptable under the terms of this agreement if they are approved in writing by the Federal Minister following a formal request from the Quebec Minister. However any expense incurred before April 1, 1976, shall not be deemed eligible.

MANAGEMENT

7. (1) This agreement shall be supervised by the Development Committee, the composition and duties of which are set forth in section 9 of the General Agreement.
- (2) A Management Committee, comprising an equal number of representatives of Canada and Quebec, shall be responsible for the routine management of the projects. This joint supervision shall be provided by the representatives of the Department and the Bureau.
- (3) The Management Committee shall answer to the Development Committee and its specific tasks shall be:
- (a) to supervise the implementation of the work program covered by this agreement;
 - (b) to propose amendments to this agreement, including Schedules "A" and "B", subject to the provisions of section 4;
 - (c) to create subcommittees, if need be, to assist in the fulfilment of its mandate;
 - (d) to inform the people and groups affected by this agreement.

- (4) Canada and Quebec undertake to provide the Management Committee, through their respective representatives, with all the information it requires in order to perform its tasks.
- (5) Quebec agrees, through its Site Manager, that the company shall:
 - (a) appoint an officer to maintain liaison with the Management Committee for the purpose of providing them with information on progress made and submitting to them, at least quarterly, a report containing at least the required information on progress and costs;
 - (b) permit the Management Committee, at least quarterly, to inspect the work for the purpose of verifying progress claims and obtaining any other information concerning the project;
 - (c) make a formal request to the Management Committee following any major change in the implementation of the work program.
- (6) Should the company make any major change in the implementation of the work program provided for in Schedule "A", Canada and Quebec reserve the right to modify their financial commitments to this agreement.

ACCOUNTS AND METHOD OF PAYMENT

8. (1) Subject to section 9 of this agreement, Canada shall make annual payments to Quebec according to progress made and expenses actually incurred in the course of the year in question, upon recommendation by the Management Committee and upon receipt of a claim certified by the President-Director General of the Bureau or his representative and submitted by Quebec in the duly prescribed manner.
- (2) Nevertheless, Canada shall not make the final payment of \$5 000 000, thus completing its financial contribution to the implementation of the work program provided for in Schedule "A", until the bleached kraft pulp mill at St-Félicien begins commercial operations.
- (3) Quebec shall keep accounts of the payments provided for in paragraphs (1) and (2) of this section and shall submit to Canada within one hundred and twenty (120) days following each payment a detailed statement of expenditures in the duly prescribed manner and to the satisfaction of the federal Minister.

- (4) Any discrepancy between the amounts paid by Canada and the amounts actually payable by the Department shall be adjusted by Canada and Quebec as quickly as possible. However, any payment made pursuant to paragraphs (1) and (2) of the section during a given fiscal year, and which proves ineligible after audit during a subsequent fiscal year, shall be considered to be an expenditure chargeable to the budget covering this agreement.
9. All payments made to Quebec by Canada pursuant to section 8 shall be paid into the consolidated fund of Quebec through the Bureau.
10. Quebec agrees that the company shall maintain up-to-date and detailed accounts for its work program and shall provide Canada, upon request, with all the accounting information required to audit claims relating to work carried out in accordance with this agreement.
11. In each fiscal year the contributions of Canada and Quebec under the terms of this agreement shall be conditional upon the allocation of funds for this purpose by the Parliament of Canada and the Quebec National Assembly.

EVALUATION

12. As provided for in subsection 6(5) of the General Agreement, the company's development project shall be assessed according to criteria established by the Development Committee in the year following the signing of this agreement.

GENERAL PROVISIONS

13. Canada and Quebec mutually agree to cooperate in the development and implementation of a public information program on the project provided for in this Subsidiary Agreement, and further agree that:
 - (1) The text of all calls for tenders and public advertising relating to the project covered by this agreement shall contain the following statement: "This project is being subsidized by the Department of Regional Economic Expansion of Canada and the Quebec Planning and Development Bureau" or any other statement to the same effect approved by the Ministers.
 - (2) Canada shall provide, install on site and maintain throughout the period that work is in progress, one or more signs indicating that the work concerned is undertaken in accordance with this agreement, or bearing any other statement to the same effect approved by the Ministers.

- (3) Canada reserves the right to provide and install wherever suitable, on completion of the work, a permanent plaque or sign bearing an inscription similar to that described in paragraph 2 of this section.
 - (4) Official inauguration ceremonies for the project shall be organized jointly by the Ministers.
14. No member of the House of Commons or the Quebec National Assembly shall be admitted to any share or part of any contract, agreement or commission made pursuant to any subsidiary agreement or to any benefit arising therefrom.
15. The party responsible for the implementation of the project shall indemnify and save harmless the other party, its officers and agents, against all claims and demands of third parties in any way arising out of the implementation of this project.
16. All construction work done during the implementation of this Agreement shall be carried out in accordance with labour conditions agreed to by Canada and Quebec.
17. All contracts relating to the implementation of the project shall be awarded without discrimination by reason of sex, age, marital status, race, ethnic origin, religion or political affiliation. It is agreed, however, that the foregoing shall not prevent the implementation of special measures designed to benefit native people or other disadvantaged groups living in a region where a project is being carried out.
18. Canadian material, as well as Canadian professional services, shall be used in respect of the project, to the extent to which they are available and consistent with proper economy and without prejudice to the expeditious completion of this program or project.

IN WITNESS WHEREOF this Agreement has been executed on behalf of Canada by the Honourable Marcel Lessard, Minister of Regional Economic Expansion, and on behalf of Quebec by the Honourable François Cloutier, Minister of Intergovernmental Affairs and the Honourable Gérard D. Lévesque, Minister responsible for the Quebec Planning and Development Bureau, on the above mentioned day and year.

IN THE PRESENCE OF:

SIGNED ON BEHALF OF CANADA

Witness

Minister
Regional Economic Expansion

IN THE PRESENCE OF:

SIGNED ON BEHALF OF QUEBEC

Witness

Minister of Intergovernmental
Affairs

Witness

Minister responsible for the
Planning and Development
Bureau

CANADA-QUEBEC SUBSIDIARY AGREEMENT ON
SETTING UP A BLEACHED KRAFT PULP MILL AT ST-FELICIEEN
1976-1980

SCHEDULE "A"

PROBLEMS, OBJECTIVES AND FINANCING PROGRAM

INTRODUCTION

The purpose of this schedule is to give a brief description of the problems, objectives and the financing program that set the terms of this Subsidiary Agreement between the governments of Canada and Quebec.

PROBLEMS

The pulp and paper industry is one of the oldest and most important in the economic structure of Canada and Quebec. It was in the Province of Quebec that the manufacture of chemical pulps derived from wood began in 1864, and that North America's first kraft pulp mill opened in 1907. In the years between, industrialization got underway in Canada and Quebec, with the pulp and paper industry helping to provide the impetus.

The industry connected with processing Canada's enormous timber resources grew at an accelerated rate after the American tariffs on newsprint were completely eliminated in 1913.

Because of the large paper complexes that were set up in Saguenay-Lac St-Jean, the St-Maurice Valley, the Ottawa Valley, Northwestern Ontario, and later in British Columbia, Canada's newsprint production in 1926 exceeded that of the United States for the first time. Since that time, the industry has continued to grow and diversify under the influence of market demand, accessibility of forest resources and technological progress in the areas of both pulp and paper. Today, in a world market of 175 million tons per year, with commercial pulp accounting for about 25 million tons, Canada ranks as the second largest producer (after the United States and ahead of Scandinavia) with 15 million tons of paper and 7 million tons of pulp. The economic impact of Canada's industry, however, is far more significant than shown by these figures, due to the large percentage of production that is exported: Canadian pulp, for example, represents one third of world trade in this commodity.

Besides the strategic value of pulp and paper for the balance of trade (10% of total Canadian exports), the industry also plays a key role in regional development. The mills and forestry operations that keep them supplied are generally the only viable economic activities in vast stretches of Canadian

territory, and in the towns and villages who owe their origin to these activities.

Quebec, the birthplace of Canada's pulp and paper industry, is still Canada's leading producer. In 1974, the 59 mills located in various parts of Quebec supplied 33% of all the paper, cardboard and pulp produced in Canada. However, the distribution by product was very uneven, since Quebec's share represented 45% of the newsprint made in Canada, but only 12% of the total for pulp.

Quebec's pulp and paper companies provide employment for some 79 000 people in the mills and forests, or about 11% of total employment in the primary and secondary sectors. Considering that the industry offers an employment multiplier of 3.10, a total of 245 000 jobs will be affected by its future. There is no doubt that a competitive, modern and dynamic pulp and paper industry is essential for the economic well-being of Quebec, and particularly of all its outlying regions.

Since 1968, the industry has experienced a general slowdown in Canada, and such low profits (less than 3% between 1970 and 1972) that new investments are not generally warranted, despite the anticipated growth of world demand. Quebec is more severely affected by this situation than the other producing regions; its share in Canadian investments dropped from 37% in 1968-1969 to 16.5% in 1970-1972. The industry's growth in Quebec reflects this lack of investments, since between 1968 and 1973 Canadian production rose by an average of 4.2% and exports by 4.6% annually, while in Quebec these increases were only 3.3% and 1.9% respectively.

This has resulted in a wasteful under-utilization of natural, and, more importantly, significant human resources; with no other job opportunities available, unemployment rates for the "resource regions" of Quebec in 1975-76 have swelled to about 16% in the Northwest, 21% on the North Shore, 22% in Saguenay-Lac St-Jean and 25% in Eastern Quebec. (Roberval County, where St-Félicien is located, has an unemployment rate of 27.5%)

In this difficult situation, any project for a new pulp and paper mill must be sure to include conditions that will make the mill both operable and profitable, whether the public or the private sector is implicated.

For about fifteen years, the Government of Quebec has been trying to bring together all the factors that will make it possible to develop, in the otherwise disadvantaged Roberval - Chibougamau - St-Félicien region, the crown forest, one of the last remaining large sources of wood able to support an integrated forestry complex of optimal size.

OBJECTIVES

The aim of this agreement is to enable Quebec to develop an integrated forestry complex at St-Félicien, Roberval, by helping to finance a bleached kraft pulp mill and the sawmills that will keep it supplied.

Schedule "A" of the Canada-Quebec General Development Agreement signed on March 15, 1974, entitled "Objectives and Priorities for Intervention", specifically stated: "In the forestry sector, we will attempt to rationalize sources of supply and to facilitate access to them. Also, we will undertake programs for the modernization of existing processing plants when this is required, as well as promote opportunities for new companies".

The first of these objectives led to the signing, on March 26, 1975, of a Canada-Quebec Subsidiary Agreement for 1974-1978 on access to forest resources, whereby the two governments are allocating \$24.2 million to facilitate the recovery of the less accessible forests in the various wooded regions of Quebec.

This Agreement not only meets a second specific objective with regard to the forestry sector, but also satisfies all the broad objectives of the General Agreement:

- (a) "to improve opportunities for productive employment and to consolidate employment in the traditional sectors": the 950 new jobs are part of a manufacturing activity with greater added value. Furthermore, integrating the pulp mill and sawmills with the forestry operation will make it possible to stabilize the 980 already-existing jobs.
- (b) "to improve the standard of living": setting up the kraft mill involves creating more complex and better-paid activities than the present forestry work - sawmill work tandem.
- (c) "to reinforce the industrial and urban structure of Quebec and promote the optimal development of the various regions": this project will make it possible to confirm the role of such urban centres as St-Félicien, Roberval and Dolbeau, while at the same time helping to maximize the potential of this region, since the forest is its chief resource.
- (d) "to promote increased participation by Quebecers in their own development": through native development organizations, and particularly the Société Générale de Financement, principal shareholder of the Donohue Company, the interests of Quebec society will be extensively represented in this project which will also bring in a considerable amount of British Columbia (B.C. Forest Products) and French (Cellulose du Pin) capital and expertise.

- (e) "to promote balanced development in Quebec in relation to the various regions of Canada": the Donohue St.Félicien project will help re-establish the traditional balance between Quebec and Canada's other pulp and paper producing regions.

Setting up Donohue St.Félicien will also make possible the optimal utilization of the forest resources of this vast region. Forestry operations will be carried out according to a development plan which will make use of both the more accessible forest land of the southern zone and the crown reserve forests in the north. The three sawmills will be supplied with logs which, according to their quality, will be used for lumber or made into chips to be used at the pulp mill, as is done with the sawmill's waste material. After modernization, the sawmills are expected to produce 135 million f.b.m. and 548 000 tons of chips. The mill, for its part, will produce 262 000 tons of bleached kraft pulp.

FINANCING PROGRAM

The Donohue St.Félicien complex, which will be one of the largest and most modern in Quebec, will require investments amounting to \$298 million, in accordance with the following financial structure:

	(\$ ' 000)
Share capital (60% Donohue Co. - 40% B.C. Forest Products)	70 000
Contribution of the Subsidiary Agreement	50 000
Quebec Government loan	25 000
First mortgage bonds	125 000
Interim financing and operation	<u>28 000</u>
	298 000

The amount to be contributed under the Subsidiary Agreement will be paid progressively as the work advances, in the form of capital investments spread over the period from 1976 to 1980.

SUBSIDIARY AGREEMENT: ON SETTING UP A BLEACHED KRAFT PULP MILL AT ST.FELICIEN

SCHEDULE "B"

<u>CODE</u>	<u>PROJECT DESCRIPTION</u>	(in \$'000) BREAKDOWN OF COSTS (Canada 60%/Quebec 40%)			<u>DEADLINE</u>
		<u>TOTAL ESTIMATED COST *</u>	<u>CANADA DREE</u>	<u>QUEBEC</u>	
	Bleached kraft pulp mill - Donohue St.Félicien Inc.	50 000	30 000	20 000	31/3/80

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APPROVED BY THE DEVELOPMENT COMMITTEE OF THE CANADA/QUEBEC SUBSIDIARY AGREEMENT

FOR CANADA

The Honourable Marcel Lessard
Minister of Regional Economic
Expansion

FOR QUEBEC

The Honourable Gérard D. Lévesque
Minister responsible for the Quebec
Planning and Development Bureau

DATE _____

DATE _____

