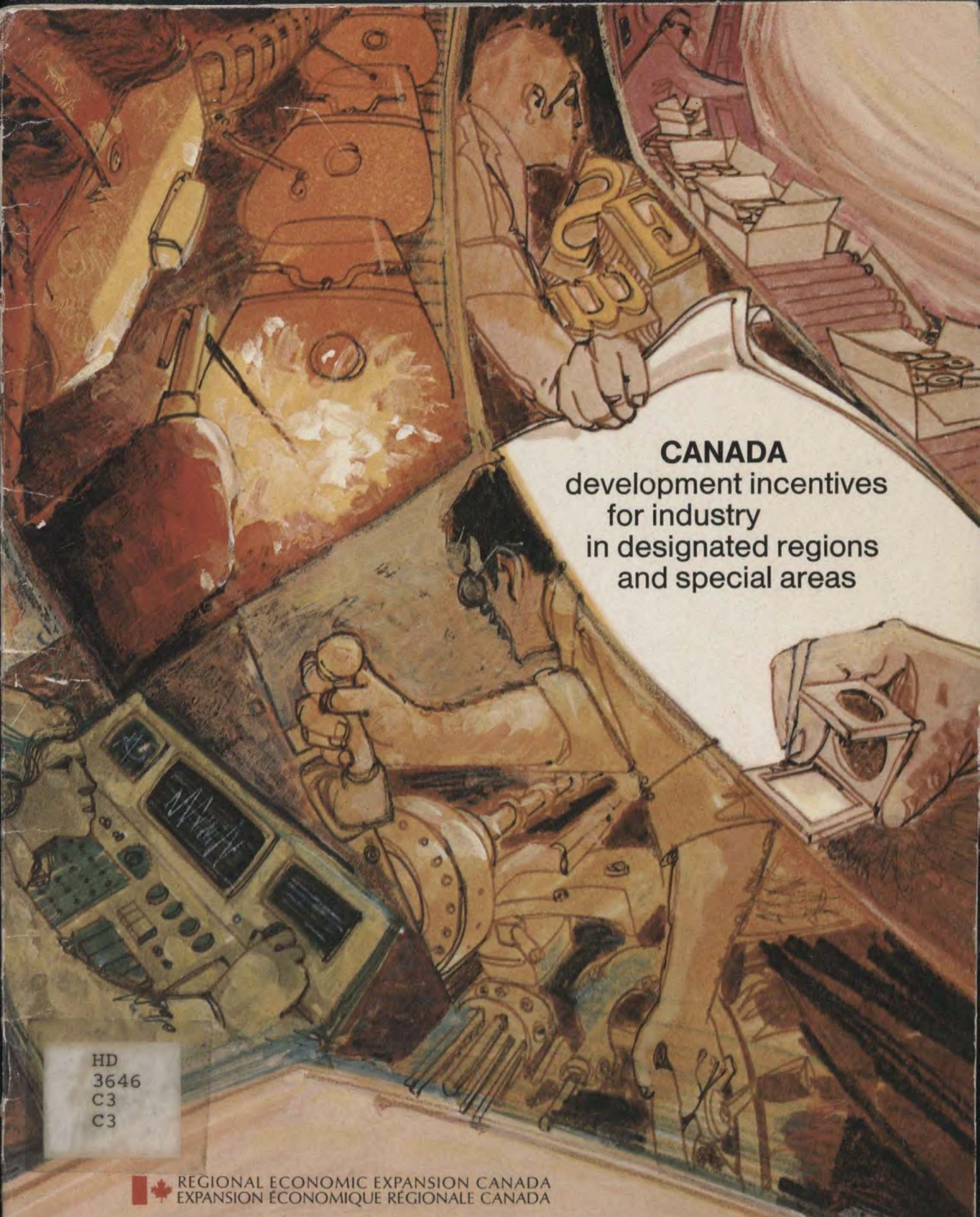

CANADA
development incentives for industry in designated regions and special areas

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introduction

Canada is a land of great resources and great opportunities. But its economy tends to operate with large regional variations. There is rapid industrial growth in many areas. But in some parts of the country, employment and earnings opportunities lag a long way behind.

The government of Canada is determined to do everything practicable to reduce such inequalities. For this purpose, the Department of Regional Economic Expansion was established in 1969.

One of the main programs of the Department provides development incentives to encourage new productive employment. The program operates in many regions of Canada.

These incentives are not continuing subsidies. They are designed to offset the initial disadvantages of an industrial investment in the areas where additional employment is most needed. They reduce the capital costs of the company, so that it will then be able to operate on an economic basis.

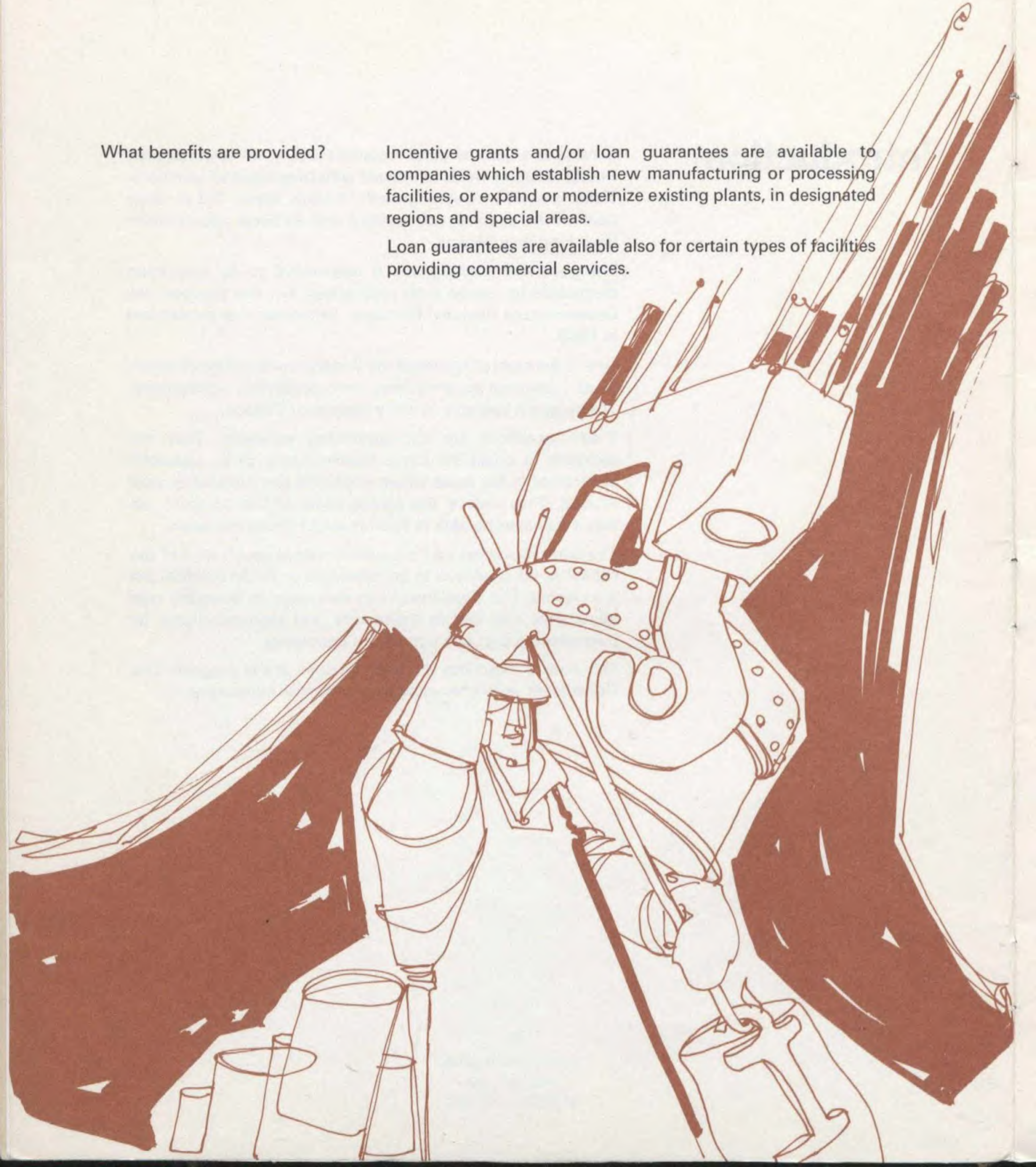
The grant incentives can be substantial: as much as half the capital to be employed in an operation or up to $30,000 per job created. The Department can also assist in financing new operations, and certain expansions and modernizations, by guaranteeing part of a company's borrowing.

This booklet describes the main features of the program. The Department welcomes enquiries for further information.

What benefits are provided?

Incentive grants and/or loan guarantees are available to companies which establish new manufacturing or processing facilities, or expand or modernize existing plants, in designated regions and special areas.

Loan guarantees are available also for certain types of facilities providing commercial services.



Where are the benefits provided?

In designated regions and special areas. They are shown on the map which accompanies this booklet.

What kinds of industry are eligible?

Most manufacturing and processing industries are eligible for both incentive grants and loan guarantees.

Processing industries that are *excluded* are oil refining and the production of mineral concentrates, wood pulp and newsprint.

Further processing operations that are *eligible* for incentives include: petrochemical processes; processing of mineral concentrates by roasting, leaching or smelting to produce metals; converting of wood pulp into paperboard or paper; saw-milling; processing of farm products and fish.

In what way are service industries eligible?

Loan guarantees, but not incentive grants, can be provided for hotels, convention centres and recreational facilities, and in large centres of population also for warehousing and freight handling facilities, shopping centres and business offices. Such projects must be new facilities; expansions and modernizations are not eligible.

Are there any exceptions?

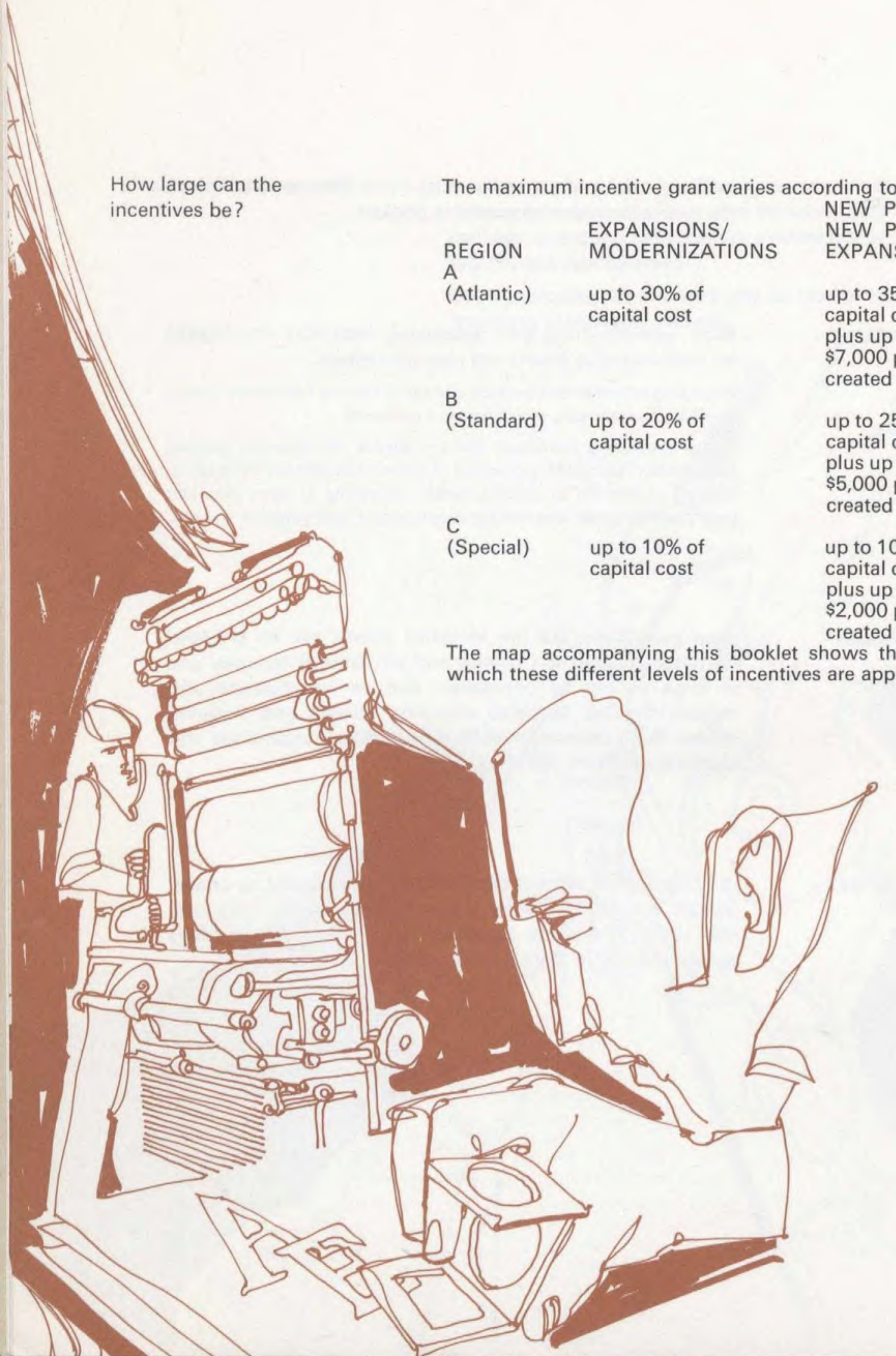
In some special areas incentives may be provided to undertakings not eligible under the standard program. This may also apply to projects organized so that Indian and Metis people will obtain employment experience.

How large can the incentives be?

The maximum incentive grant varies according to region:

REGION	EXPANSIONS/ MODERNIZATIONS	NEW PLANTS OR NEW PRODUCT EXPANSIONS
A (Atlantic)	up to 30% of capital cost	up to 35% of capital cost plus up to \$7,000 per job created
B (Standard)	up to 20% of capital cost	up to 25% of capital cost plus up to \$5,000 per job created
C (Special)	up to 10% of capital cost	up to 10% of capital cost plus up to \$2,000 per job created

The map accompanying this booklet shows the regions in which these different levels of incentives are applicable.



For a project to qualify as a new product expansion, the additional products must be ones that could not be manufactured or processed economically with the existing machinery and equipment of the plant.

An incentive grant cannot exceed:

(a) $30,000 for each job created directly in the operation;

(b) one half of the capital to be employed in the operation.

APPROVED CAPITAL COSTS include the cost to the applicant of purchasing buildings, equipment and machinery plus the direct cost of designing, acquiring, constructing, transporting and installing the assets. Land is not an eligible asset, nor is transportation equipment used off the premises. Capital payments made by the applicant to public authorities for utilities may be included, up to 20 percent of the total approved capital costs.

CAPITAL TO BE EMPLOYED in the operation is the total of the approved capital costs plus the value of other fixed assets (such as land) together with an amount of working capital appropriate to the operation at intended capacity.

THE NUMBER OF JOBS created directly in an operation is the average number of employees in or based upon the facility during the second and third years of commercial production.

Minimum investment:

For an expansion or modernization, the approved capital costs must be at least $30,000. For a new plant or new product expansion, the approved capital costs must be at least $60,000.

Equity requirement:

For a new plant, the offer of an incentive is conditional on the applicant providing a specified amount of equity capital. This can never be less than 20 percent of the approved capital costs as estimated at the time the incentive is offered. In the case of an expansion or modernization, the applicant must have an equity not less than 20 percent of the total of the approved capital costs and the book value of the existing facility.

Equity is the total of the share capital, earned surplus, contributed surplus, capital surplus and shareholders' loans (subordinated to all other types of debt financing) that the applicant provides for the financing of an operation.

Are there any deadlines?

Commercial production must begin by December 31, 1976, at the latest. For projects coming into production after December 31, 1973, the highest possible incentive is 25% of capital cost plus $5,000 per job created.

Are there any other special conditions?

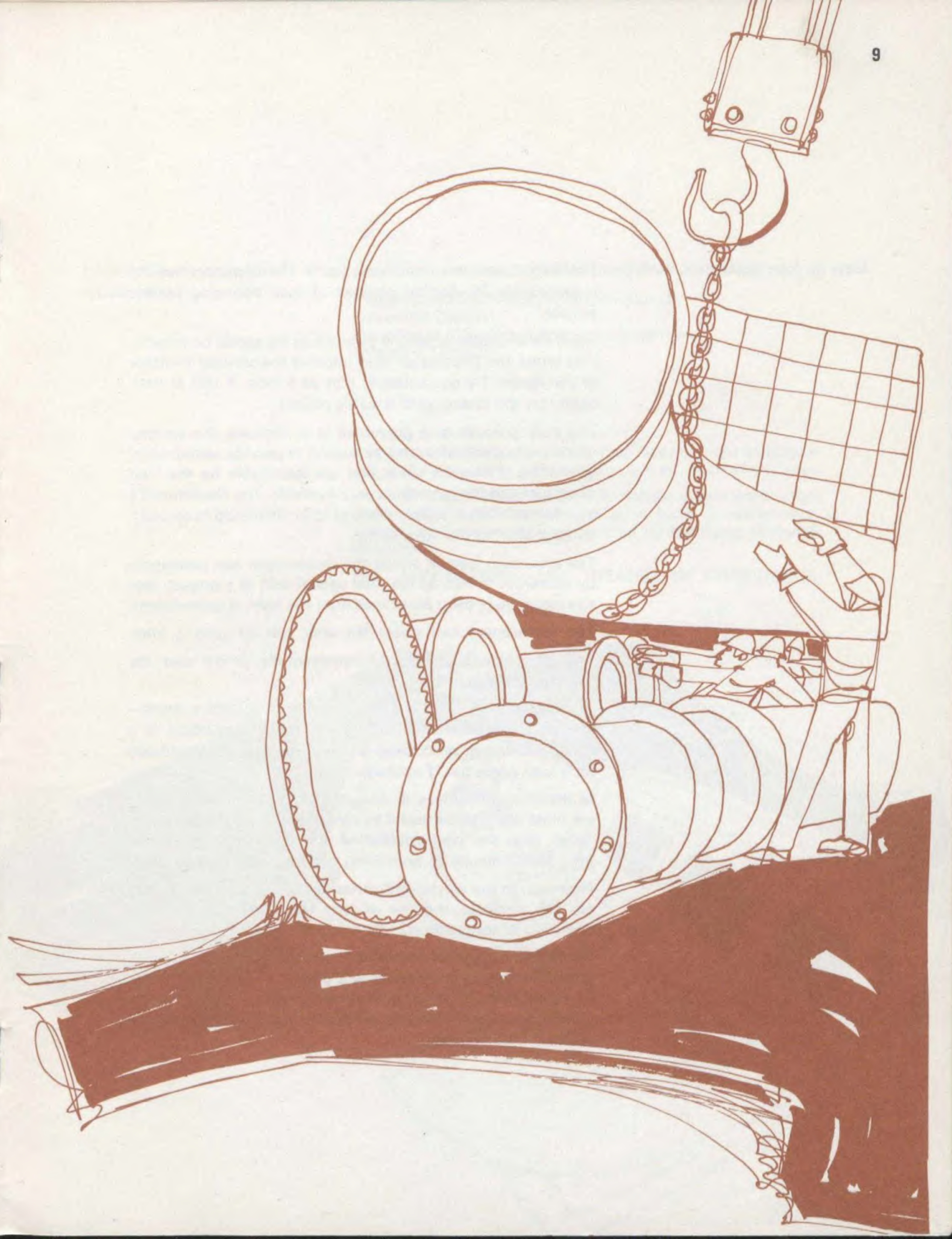
There are a number of conditions which are outlined in the Regional Development Incentives Act and Regulations. The applicant should review these in detail before submitting an application. A few of the more important ones are listed below.

Applications for incentives must be received while the project is in the planning stage and before any commitments are made for buildings, machinery or equipment. No incentive can be paid in respect of a project committed before an application is received.

The applicant must co-operate with Canada Manpower Centres in his recruitment and training of manpower, and must undertake to employ, to the maximum extent practicable, residents of the region in which the facility is located.

There must be satisfactory control of pollution.

The applicant must give Canadian manufacturers a reasonable opportunity to supply, competitively, the machinery and equipment for the project.



How do loan guarantees work?

The Department does not make loans. The applicant has the responsibility for finding sources of loan financing for his project.

But if he is unable to borrow as much as he needs, on reasonable terms, the Department may improve the security available to the lender, by guaranteeing part of a loan, if this is necessary for the financing of a viable project.

The only purpose of a guarantee is to increase the amount of the loan. The lender must be willing to provide, without any guarantee, a loan on terms that are reasonable for the kind of project and the type of security available. The Department's guarantee will then enable the loan to be increased in amount, without altering the other terms.

The maximum loan in which the Department can participate by guarantee is 80% of the total capital cost of a project, less any incentive or other assistance from any level of government.

The Department can guarantee only part of such a loan.

The guarantee agreement is between the lender and the Department, and involves a fee.

Any project that can be considered for an incentive grant—that is, the establishment, expansion or modernization of a manufacturing or processing facility—can also be considered for a loan guarantee if needed.

In practice, guarantees in conjunction with incentive grants are most likely to be useful to newer and smaller companies, rather than the well-established and large companies that have less difficulty in borrowing commercially all they need.

However, in the service industries, for which incentive grants are not available, the use of loan guarantees to assist in financing is not practicable for small projects.

The minimum size of commercial service facility for which a guarantee can be considered is a project involving $500,000 in capital costs. In large centres of population, this minimum is increased to $1,000,000, except in Metropolitan Montreal where it is $5,000,000.

How does one apply for an incentive?

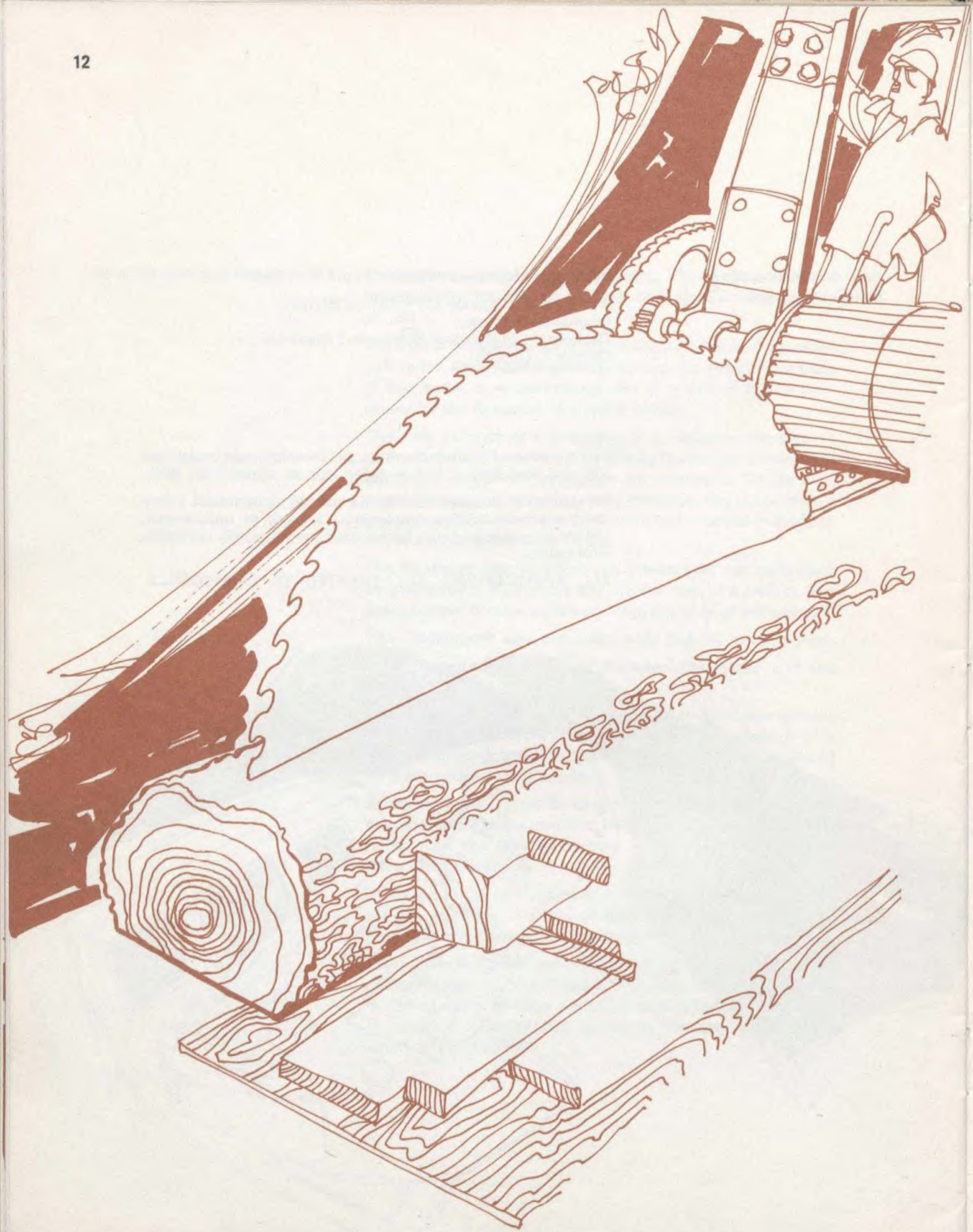
Application forms are available from:

Industrial Intelligence & Promotion Branch,
Incentives Division,
Department of Regional Economic Expansion,
Ottawa 4, Ontario.

You are advised to study the Regional Development Incentives Act and Regulations before filling out an application form.

An applicant is asked to provide normal commercial information, similar to that required by a bank or underwriter. Delays in processing can be avoided by supplying complete information.

ALL APPLICATIONS ARE TREATED IN CONFIDENCE.



What happens after an application is submitted?

The application is promptly reviewed. Often it is then necessary to ask for further information.

When the relevant information is complete, it is speedily analysed in order to decide whether an incentive can be offered and, if so, at what rate.

A letter of offer specifies the amount of the incentive. It also sets a date by which construction must begin. This date is a realistic one, determined after discussion with the applicant.

The offer remains open for 90 days. If the offer is accepted, the Department of Regional Economic Expansion is required to publish the name of the company, estimated capital costs and employment, and the amount of the incentive. Other information remains confidential.

What determines the size of the incentive offered?

The financial analysis of the project is the basis for a cost-benefit comparison.

The Department tries to determine what, if any, assistance is needed in order that the project can go ahead with a reasonable chance of normal, long-term profitability. This analysis is especially concerned with any extra costs or risks that may be incurred because of the location of the project. It also takes account of other public costs—utilities and community services, and indirect costs for such things as pollution control—that may be involved.

The analysis of public costs includes the amount or present value of any other federal, provincial or municipal assistance to be given. If the amount of such assistance changes after an incentive is offered, the amount of the incentive may be correspondingly amended.

On the other side of the account, the Department looks at the economic benefits of the extra production, including the probability and nature of other development that may follow, and at the social benefits represented by the amount, nature and location of the direct and indirect employment.

From the comparison of costs and benefits, an appropriate level of incentive—between zero and the maximum scale provided for in the legislation—is determined.

When will the incentive be paid?

When the new, expanded or modernized plant is in commercial production, it is inspected and the records of capital costs are examined. An initial payment of 80 percent of the estimated total incentive is then made. The remainder of the incentive will be paid within the following 2½ years for an expansion or modernization, or within 3½ years for a new plant or new product expansion.

Development incentives are exempt from income tax but the amount of a grant cannot be depreciated as a capital cost for tax purposes.

Does the Department of Regional Economic Expansion provide any other type of assistance for industry?

Yes. It co-operates with provincial governments and other federal departments in a variety of development programs adapted to the different needs of different areas. These are designed to help people to take advantage of improved opportunities. They include special assistance for developing community infrastructures, for utilities and for the provision and servicing of land for industrial purposes.

The Department has a staff of Industrial Development Officers who work closely with provincial and municipal officials, banks, utilities and other industrial development agencies. They will assist any company with its plant location analysis on a confidential basis.