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ECONOMIC DEVELOPMENT PROSPECTS IN QUEBEC

One of a series of reports
on development prospects
in the provinces, territories,
and regions of Canada
prepared by *LCanada*
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ECONOMIC DEVELOPMENT PROSPECTS

IN QUEBEC

PREFACE

In 1973, the Department of Regional Economic Expansion published a series of documents on the economic situation and development outlook of each province. Looking back, it is now apparent that Canada, like the rest of the world, went through a significant period of adjustment and sweeping change in the mid-seventies. Although these documents did not anticipate such changes, they proved useful in the establishment of a new federal-provincial mechanism, the General Development Agreement, which was designed to be an adaptable tool for promoting regional development in Canada. A major objective of this new mechanism was the formulation of integrated federal-provincial economic strategies based on development opportunities.

The heightened interest in economic development strategies that ensued, and the recent public discussions on the respective roles of business, labour and government, indicate that a re-examination of economic problems and development opportunities is called for.

This report outlines the development of the province's economic situation and describes the factors that have contributed to economic performance. It also analyses the main areas of interest that relate to development planning and that influence the realization of development opportunities. The identification of the main development opportunities is the central purpose of the report. To do this, one section begins with a description of the province's comparative advantages, then goes on to an analysis of sectoral and regional development opportunities.

In the years ahead, the economic situation and development opportunities will continue to evolve, but it is clear that economic development will require increased internal policy coordination. In this context, this report can contribute to the formulation and implementation of additional integrated federal-provincial development policies. In the medium term, the broader aim of the report is to provide a regional dimension in the definition of national economic policies.

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1. OVERVIEW

Quebec's development has historically been based on three major factors which explain the emergence of areas of specialization in the Quebec economy. Quebec's natural and hydro-electric resources fostered the development of the forestry and primary metal-processing industries. Second, an abundant supply of manpower encouraged the development of the textile, clothing, hosiery and leather industries in Quebec. Finally, the Montreal urban community, Canada's main transportation hub, contributed to the development of the financial and business services sector, and to the growth of manufacturing industries linked to local and export markets.

Until the end of the fifties, these factors enabled Quebec to achieve rapid growth that compared favourably with that of Canada as a whole. But by the end of the war, the situation had begun to change, becoming relatively less favourable for Quebec. Geographically speaking, Quebec was somewhat far removed from the main centres of industrial activity in the north-central United States. Furthermore, the rapid-growth industries, such as those related to steel, were under-represented in the industrial structure of Quebec. The result of these factors was a gradual shift of the nerve centre of the Canadian economy toward southwestern Ontario, and the decline of Quebec's relative position in the Canadian economy.

The relative decline of the Quebec economy became evident in the mid-sixties. From that time onward, in fact, economic growth was generally slower in Quebec than in the whole of Canada, and in several respects was even inferior to that of the Atlantic provinces. This decline, however, had actually begun to emerge much earlier, particularly in the shift of financial activities and head offices from the Montreal region to Ontario, starting in the early fifties. The shift of these decision centres subsequently accelerated, and had a significant impact on various sectors, notably transportation and manufacturing. Since the beginning of the sixties, the growth of manufacturing in Quebec has been relatively sluggish, and Quebec's share of Canadian manufacturing activity has decreased noticeably. This situation is explained by the scarcity of rapid-growth industries in Quebec's industrial structure and the growing problems with which the traditional industries have had to contend. Quebec's slow growth has had a particularly detrimental effect on the labour market, where the job creation

rate has fallen off to such an extent that Quebec now has the lowest of all the regions of Canada. The slow-growth situation is also reflected in the fact that Quebec now accounts for a smaller portion of the total Canadian population than was formerly the case.

Analysis of the principal economic indicators shows that Quebec's relative position continued to deteriorate between 1971 and 1978, and that the main problems experienced at the start of the decade became more pronounced. A persistently high rate of unemployment, the structural difficulties in the manufacturing industry and the relative decline of Montreal are some of the problems which are currently making themselves felt still more keenly. In addition, over the course of this period Quebec's economy became more dependent than ever on the public sector, which has accounted for a steadily increasing proportion of total investment and individual income.

The factors that have influenced the development of the Quebec economy over the past two decades will continue into the eighties. The shift of economic activity toward the west may speed up, encouraged by the sizeable investments that will be made there to exploit energy resources. The results of the GATT negotiations appear to have opened up new possibilities for the local processing of several natural resources, but the future of a number of traditional industries is far from assured in the face of heightened international competition. Investment growth has also been slow in recent years, and largely sustained by major government investment projects. The investment outlook is not promising as neither the public nor the private sector has slated many major development projects for the near future.

In these circumstances, it is unlikely that the growth of the Quebec economy will be sufficient to absorb the expanding labour force and as a result the unemployment rate can be expected to remain high until the mid-eighties. Furthermore, judging by the trends of the last twenty years, Quebec's position in relation to the whole of Canada will probably deteriorate further in terms of output, investment, employment and population.

Quebec does, however, enjoy a number of comparative advantages which can be relied upon to foster a higher level of development in future, and which will become increasingly strategic with the opening of international markets as a result of the recent GATT agreements. In fact, Quebec has an important domestic market, and is in a favourable geographic location for access to American and European markets, despite the visible shift of economic activity toward the west. The province is also a major supplier of raw materials which can be processed

locally to a greater extent, and it has a decided advantage with regard to hydro-electric power. The strides made in education since the early sixties have been bringing increasingly qualified people onto the labour market. Despite the slackening performance recorded in several sectors, the Montreal urban community is still one of the most important urban centres in the northeastern part of the continent. Finally, the province now has a considerable stock of capital as well as institutions which make it possible to channel increasing amounts of this capital into investment projects.

2. ECONOMIC PROSPECTS

2.1 General Development and Historical Circumstances

Quebec's industrialization has been comparatively recent; until the end of the last century, the Quebec economy was based almost exclusively on the exploitation of natural resources. Traditionally dependent on agriculture and the exploitation of forest resources, the Quebec economy did not start to industrialize until the last quarter of the nineteenth century, with the appearance of the National Policy of 1878. The introduction of a protective customs tariff fostered the development of secondary industry and confirmed Montreal in its role as Canada's metropolis.

During the first half of the twentieth century, specialized sectors developed in the Quebec economy. The province's abundant forest resources and the expansion of the newsprint market generated much of the economic activity in the outlying regions. The development of hydro-electric power led to the establishment of important secondary industries such as the aluminum processing industry. Tariff protection and a ready supply of manpower stimulated the development of the textile, clothing, furniture, and food and beverage industries. Finally, shortly after World War II, Quebec began mining and exporting the iron ore resources from the North Shore, thus confirming its role as a supplier of raw materials.

In the meantime, heavy and advanced-technology industries, such as the iron and steel, automotive, and later, electrical products industries, were becoming concentrated in Ontario. The gradual westward shift of economic activity, which got under way between the two wars, eventually brought about the relative decline of Montreal. At the end of the fifties, the major decisions affecting financial markets were already being made in Toronto. To all intents and purposes, Quebec's only real centre of development is Montreal; by the end of the fifties, more than 70 per cent of manufacturing activity was already concentrated in its metropolitan region.

The 1957-61 recession was extremely hard on the Quebec economy; unemployment rates were the highest they had been since the war. The structural differences between Canada's two most highly industrialized regions made themselves felt throughout the sixties and seventies, with Quebec's relative position in the Canadian economy declining steadily. A few years after the abrupt demographic reversal at the start of the sixties, Quebec incurred significant relative losses in terms of output, investment, income and employment, as shown in Table 1. Investment, particularly in the manufacturing sector, was the area in which Quebec's share in the national economy suffered the worst setback, dropping from 26.9 per cent to 18.2 per cent between 1961 and 1971.

TABLE 1

MAIN ECONOMIC INDICATORS
(in percentage of the Canadian total)

	Atlantic			Quebec			Ontario			West		
	1961	1971	1978	1961	1971	1978	1961	1971	1978	1961	1971	1978
Domestic Output	6.7	6.1	6.0	25.0	24.2	23.6	41.2	41.7	41.0	27.1	27.9	29.4
Total Capital Expenditures	7.5	9.3	6.8	24.1	20.6	21.9	34.1	37.0	30.6	34.2	32.3	39.7
Capital Expenditures in Manufacturing	7.7	15.7	4.5	26.9	18.2	22.4	49.2	44.5	50.6	16.1	21.6	22.6
Population	10.4	9.6	9.5	28.9	28.0	26.8	34.3	35.7	36.0	26.5	26.7	27.5
Per Capita Personal Income (Canada = 100)	68.9	71.6	74.4	90.2	88.7	94.1	118.4	117.0	108.8	98.4	98.9	102.9
Labour Force	8.8	7.8	7.9	27.9	27.2	26.0	36.8	38.1	38.1	26.5	27.0	28.0
Employment	8.4	7.7	7.6	27.3	26.8	25.3	37.5	38.4	38.6	26.9	27.0	28.6
Unemployment	13.7	8.4	11.9	36.1	32.0	33.7	28.3	33.3	32.9	21.9	26.0	21.4

Source: Statistics Canada, Catalogue Nos. 91-512, 71-201, 61-205, 61-206, Conference Board in Canada, compiled by DREE Quebec.

TABLE 2

PRINCIPAL ECONOMIC INDICATORS
AVERAGE ANNUAL GROWTH RATE*

	Atlantic			Quebec			Ontario			West		
	61-78	61-71	71-78	61-78	61-71	71-78	61-78	61-71	71-78	61-78	61-71	71-78
Domestic Output	4.6	5.0	3.6	4.5	5.1	3.6	4.8	5.8	3.6	5.3	5.7	4.8
Total Capital Expenditures	10.5	11.6	9.2	12.5	5.9	14.1	10.8	10.1	10.4	14.3	8.4	18.1
Capital Expenditures in Manufacturing	6.1	21.6	-5.31	8.8	5.6	9.5	10.9	8.1	14.0	10.7	10.1	13.0
Population	0.9	0.7	1.2	1.0	1.4	0.7	1.8	2.2	1.3	1.8	1.8	1.8
Per Capita Personal Income	12.2	8.7	13.4	11.9	7.8	14.1	10.6	8.0	12.0	11.8	7.6	13.5
Labour Force	3.1	2.3	3.5	2.8	3.3	2.7	3.6	4.4	3.3	3.9	4.4	3.9
Employment	2.5	2.6	2.5	2.4	3.1	2.1	3.3	4.2	2.9	3.7	4.1	3.8

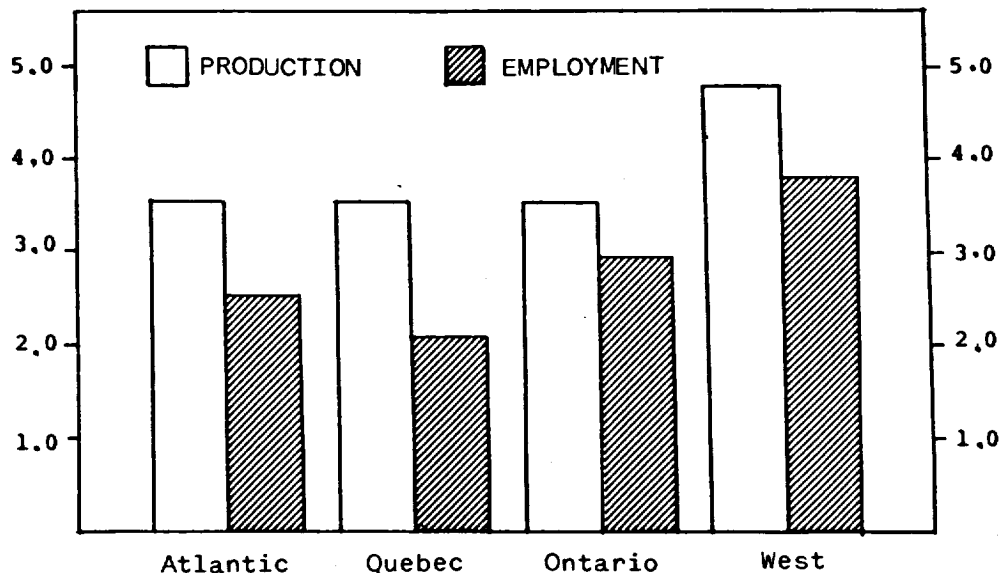
* Calculated according to the method of least squares under constraints.

Source: Statistics Canada, Catalogue Nos. 61-205, 61-206, 71-201,
Conference Board in Canada, compiled by DREE Quebec.

Nevertheless, Quebec's economic growth during this period compared favourably to that of the world's major industrialized countries. As Table 2 shows, however, between 1961 and 1971 this growth was decidedly inferior to that of Ontario and the west, and just barely exceeded that of the Atlantic provinces.

Taking general economic conditions into account, the performance of the Quebec economy has been satisfactory since 1971. Although below the Canadian average, output growth has been comparable to that of Ontario and the Atlantic provinces. Quebec's relative position in the areas of investment and income has improved slightly.

CHART 1 -
REGIONS OF CANADA
GROWTH RATE OF PRODUCTION AND EMPLOYMENT
1971-1978
(%)



Source: Statistics Canada, Catalogue No. 71-001;
Conference Board in Canada. Compiled by
DREE Quebec.

Quebec's economic development has gone through three distinct phases during the seventies. The period from 1971 to 1974 was one of vigorous growth; total investment climbed by a yearly average of 22 per cent, and investment in the manufacturing sector by 37 per cent annually, so that the province was able to make up some of the lag accumulated over the previous decade. During this period, output showed an annual increase of 5.4 per cent, and employment rose by a yearly average of 3.6 per cent.

In 1975, due to the economic problems that the majority of industrialized countries experienced as a result of the energy crisis, Quebec also experienced an economic slowdown that resulted in a marked rise in unemployment. Since the spring of 1978, however, some improvements attributable to such factors as the devaluation of the Canadian dollar, the quotas on textile and leather product imports, and the selective elimination of sales tax, have been registered.

The following are some characteristics of the 1971-1978 period which merit emphasis.

- This period was marked by the lowest rate of population growth in Quebec's history. It remained consistently below 1 per cent per year, largely because of the strongly negative migration balance.
- Quebec improved its relative position with regard to per capita income, mainly because of the rapid increase in transfer payments to individuals.
- Investment growth is well worth noting: the average annual rate was 14.1 per cent, mostly as a result of increased public investments.
- Although there were a few exceptional years, employment growth remained sluggish throughout the period, and the unemployment rate climbed steadily, reaching 10.9 per cent in 1978.
- The tertiary sector of the economy made important strides, while the problems in the manufacturing sector persisted.
- Finally, the disparities between Quebec's various regions persisted, and Montreal's decline became more serious.

The following sections of this chapter give a more detailed analysis of the evolution of the main economic indicators which will set the stage for development in the eighties.

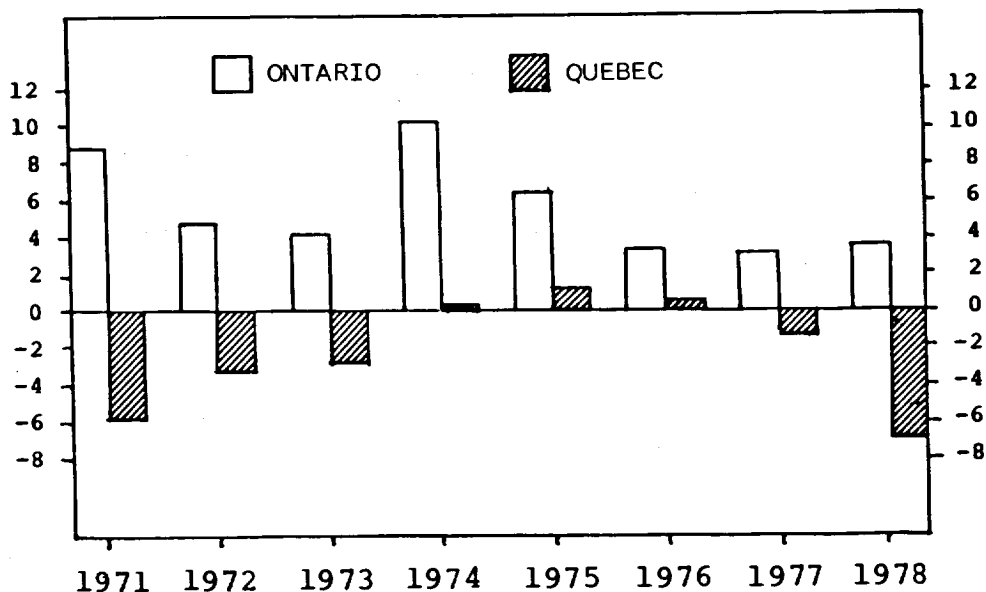
2.2 Macroeconomic Indicators

2.2.1 Population

On June 1, 1978, Quebec had a total population of 6 285 000. During the 1971-78 period, the Quebec population increased by an annual average of only 34 000, compared with 87 000 per year during the 1961-70 period. At the same time,

the population of Ontario was growing far more rapidly, increasing, on average, by 128 000 people per year from 1971 to 1978. Quebec's portion of the total Canadian population has been decreasing steadily and is now even smaller than that of the western provinces.

CHART 2
QUEBEC AND ONTARIO
NET MIGRATION RATE, 1971-1978
(per 1 000 population)



Source: Statistics Canada, Catalogue Nos. 84-001, 91-201, 92-604, 92-709 and 92-801. Compiled by DREE Quebec.

The explanation for Quebec's slow population growth lies essentially in two factors: the drop in the birthrate and the negative migration balance. The birthrate, which is currently below the replacement level, has been declining steadily since the postwar period, stabilizing at about 15 births per 1 000 inhabitants over the past three years. The death rate will continue to rise as a result of the gradual aging of the population, provoking a drop in natural increase.

The net effect of migration has varied considerably from year to year, but has never made an appreciable contribution to the province's population growth. For the 1971-1978 period, the net migration balance stood at -106 000 in Quebec, in sharp contrast to +364 000 in Ontario. Using 1961 as a base year, the net effect of migration reduced the population of Quebec by 29 000 and increased Ontario's population by 915 000. The unfavourable situation stems mainly from the results of interprovincial migration, which has nearly always been strongly negative for Quebec.

As a result of a decline in the birthrate, the average age of Quebec's population is gradually increasing. The 0-14 age group is declining steadily, while the proportion of the population in the 65-and-over group is showing a considerable increase. Quebec still has a relatively young population in comparison to most other industrialized countries, but plans will have to be made soon to gear public and private spending to a new population structure. In the public sector, budgets for health and senior citizens' homes will have to be increased very rapidly, as will retirement funds and old-age pensions.

Table 3 POPULATION BY AGE GROUP

QUEBEC, 1961-1977
(per cent)

	<u>1961</u>	<u>1971</u>	<u>1977</u>
0-14	35.4	29.6	24.1
15-24	15.9	19.4	20.3
25-44	26.6	26.2	28.6
45-64	16.2	17.9	19.0
65 +	5.8	6.9	7.9

SOURCE: Statistics Canada, Catalogue No. 84-001, compiled by DREE Quebec.

The proportion of the population living in Quebec's urban regions was 79.1 per cent in 1976, compared with 79.5 per cent in 1971. The slowdown in urban population growth has been paralleled by increased movement toward the non-agricultural rural areas on the outskirts of the urban centres.

Unlike Ontario, Quebec does not have an urban hierarchy that would enable it to rely upon secondary centres of economic development. As Table 4 shows, cities having between 100 000 and 499 999 inhabitants are practically nonexistent in Quebec, but they are well represented in Ontario. Cities of this size act as secondary centres of development, and are necessary in order to channel activity to the various regions. The lack of such centres has had a serious detrimental effect on Quebec's economic development.

Table 4 DISTRIBUTION OF POPULATION
ACCORDING TO SIZE OF URBAN CENTRE

Communities of:	Quebec			Ontario		
	# of centres	Popu- lation (000)	(%)	# of centres	Popu- lation (000)	(%)
500 000+	2	3 286	66.6	3	3 134	46.7
100 000 - 499 999	3	111	2.2	7	1 807	26.9
30 000 - 99 999	12	565	11.5	16	661	9.9
10 000 - 29 999	21	428	8.7	27	442	6.6
5 000 - 9 999	22	117	2.4	36	285	4.3
1 500 - 5 000	148	425	8.6	75	379	5.6
Total urban population		4 932	100.0		6 709	100.0

Sources: Statistics Canada, Catalogue No. 92-807, 1976 Census of Canada.

The Financial Post, "Survey of Markets 1979",
compiled by DREE Quebec.

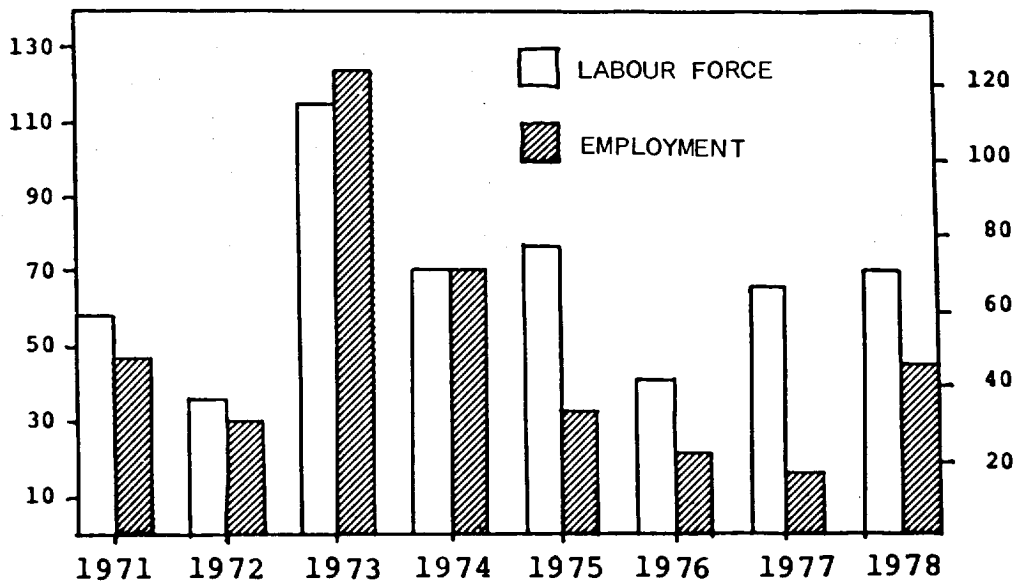
2.2.2 Labour Market

In Quebec, the 1971-1978 period was characterized by a sharp increase in the unemployment rate because not enough jobs could be created to absorb a rapidly expanding labour force.

CHART 3
QUEBEC

LABOUR FORCE AND EMPLOYMENT GROWTH, 1971-1978

(in thousands)



Source: Statistics Canada, Catalogue No. 71-001.

The number of people out of work increased considerably in Quebec during the 1971-1978 period, especially after 1975. Quebec's unemployment rate rose to 10.9 per cent in 1978, an appreciable increase over the 1971 rate of 7.3 per cent. Quebec's share of total Canadian unemployment has climbed noticeably since 1975. Because Ontario's share has decreased, the gap between the unemployment rates of the two provinces has widened. This is in contrast to the narrowing at the start of the decade. The number of unemployed in Quebec showed the greatest increases among women in the 25-44 age group and among young people.

This rise in unemployment is due to the sluggishness of employment growth in Quebec. Between 1971 and 1978, employment expanded by 2.1 per cent annually, but Quebec accounted for only 18.5 per cent of the total number of new jobs in Canada. Thus, Quebec's portion of the Canadian employment figure diminished between 1971 and 1978. Also, employment grew more rapidly among women than among men; the latter even experienced a net loss of employment between 1975 and 1978.

Quebec's labour force did not expand as quickly as that of Ontario or of Canada as a whole. Even though the participation rate made very slow progress between 1974 and 1977, significant gains were achieved in the individual years 1973 and 1974. The male labour force grew far more slowly than did the female labour force, whose participation rate climbed from 36.4 per cent in 1971 to 43.9 per cent in 1978. This trend is comparable to that of Ontario, although in Quebec the male labour force expanded far less quickly, while the female labour force growth rates were similar in the two provinces.

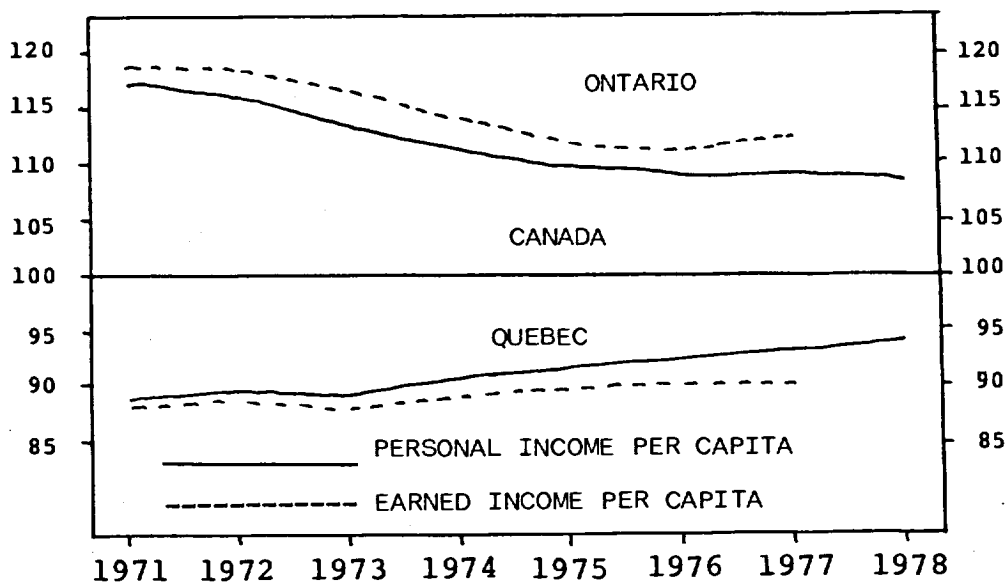
2.2.3 Income

Quebeckers' incomes rose quickly during the 1971-1978 period. Per capita personal income increased at the average annual rate of 14.1 per cent, due mainly to the increase in transfers to individuals and to higher wages and productivity.

Starting in 1971, personal income increased more rapidly in Quebec than in either Ontario or the country as a whole. By 1977 it had reached \$43 334 million, or 64 per cent of that of Ontario, compared to 59.3 per cent in 1971. Per capita personal income rose to \$6 897 in Quebec in 1977, exceeding the 1971 level by 126.4 per cent. The Quebec figure represented 85.3 per cent of that of Ontario and 93.2 per cent of that of Canada.

CHART 4

QUEBEC, ONTARIO AND CANADA
PERSONAL INCOME AND EARNED INCOME PER CAPITA,
1971-1978



Source: Statistics Canada, Catalogue No. 13-201.
Compiled by DREE Quebec.

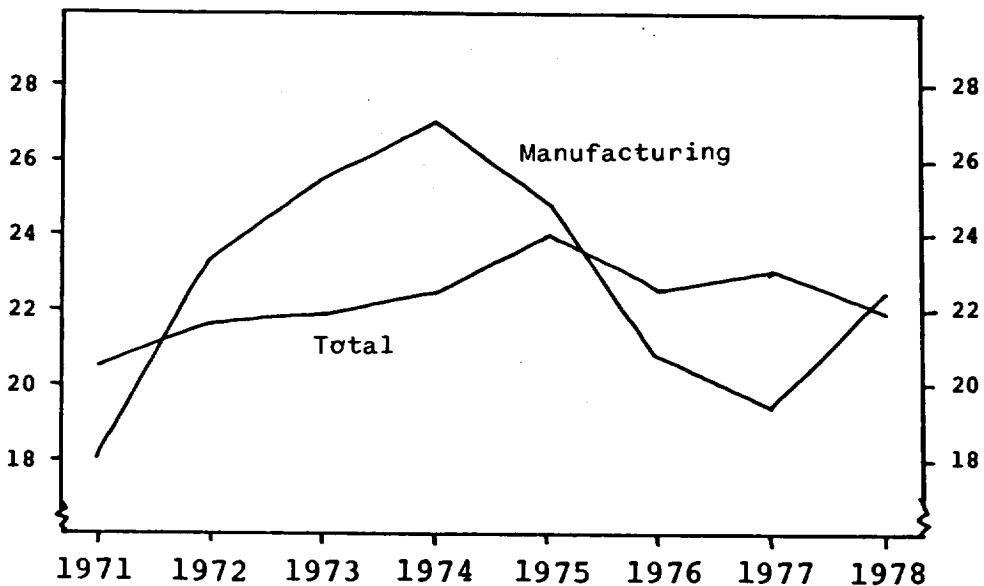
The increase in personal income in Quebec was largely supported by the rapid growth of transfer payments, which accounted for 15.9 per cent of total personal income in 1977, compared with 11.9 per cent in 1971. Even though wage rates increased rapidly, the portion of personal income represented by wages and salaries decreased between 1971 and 1977; this can be attributed mainly to sluggish employment growth. During this same period, per capita earned income, that is, income excluding transfer payments and investment income, grew at a slower rate than per capita personal income.

Average weekly earnings also went up more rapidly in Quebec than in Ontario during the 1971-1978 period. In absolute terms, they were about par in 1978. Average weekly earnings were higher in Quebec in mining, construction, trade and services. Ontario came out ahead in the forestry and manufacturing sectors, while earnings in the remaining sectors were comparable. These rapid wage increases were not followed by a comparable rise in productivity, resulting in a weakening of the competitive position of Quebec's industries. This situation was aggravated by the sizeable increase in Quebec's minimum wage, which is higher than that of any other Canadian province and exceeds the American average wage.

2.2.4 Investment

During the sixties, the performance of the Quebec economy was particularly disappointing in the area of investment. The average annual growth rate was below those of Canada's other regions, resulting in the deterioration of Quebec's relative position. Starting in 1971, however, investment in Quebec exceeded the Canadian and Ontario averages. Between 1971 and 1978, investment in Quebec recorded an average annual growth rate of more than 14 per cent, while the figures for Canada as a whole and for Ontario were 13.8 per cent and 10.4 per cent respectively.

CHART 5
QUEBEC
CAPITAL EXPENDITURE, 1971-1978
(Percentage of Canada)



Source: Statistics Canada, Catalogue No. 61-205.

There were, however, two distinct phases. Between 1971 and 1975, the investment recovery was brought about by expenditures involved in the completion of major government works -- James Bay, the Olympic Games and the extension of the Montreal Metro -- as well as by sizeable investment in the manufacturing industry in 1973 and 1974, and the completion of a number of private projects in the trade, finance and real estate sectors prior to the Olympics. The average annual growth rate of capital expenditures reached 23.1 per cent during this period. Conversely the annual growth rate has been far slower since 1976 -- 6.4 per cent -- and more than 70 per cent can be attributed to public investment.

Until 1974, the proportion of total investment accounted for by public and parapublic investment hovered around 32 per cent, but in 1975 this proportion began to increase, reaching 45 per cent in 1978. This situation reflects the weakness of the private sector as well as the supportive role of the public sector in Quebec's investment. The Quebec Bureau of Statistics estimates that in 1977, 65 per cent of public investment was made by sectoral development corporations and parapublic companies. In addition to Hydro-Québec and the James Bay Energy Corporation, these companies (REXFOR, SOQUEM, SOQUIP, SOQUIA, SIDBEC) are involved mainly in the exploiting and processing of natural resources. Between 1974 and 1978, the investments made by these companies increased by an annual average rate of 46.8 per cent, the major part of which was for the James Bay project.

In summary, during the seventies investment performance was satisfactory and Quebec's relative position improved slightly, with its share of total Canadian investment climbing from 20.6 per cent in 1971 to 21.9 per cent in 1978. During the same period, per capita investment more than doubled, and in 1978 represented 81.7 per cent of the national average, as opposed to only 73 per cent in 1971.

2.3 Industrial Structure and Sectoral Development

Quebec's industrial structure has developed along much the same lines as those of Ontario and Canada. The relative importance of the primary sector is decreasing, while the economy is becoming increasingly dependent on the tertiary sector. Compared to the whole of Canada, the primary sector accounts for a smaller proportion of total production in Quebec, but the secondary sector is stronger. However, in comparison to Ontario, Quebec's manufacturing sector accounts for a smaller proportion of total activity.

2.3.1 Primary Sector

The relative importance of the primary sector has been declining steadily since 1961 in terms of employment, output and investment. Not only did its contribution to the Quebec domestic product decrease between 1971 and 1978, as shown in Table 5, but Quebec's share in Canada's primary sector output and employment also fell slightly during the seventies.

Table 5 INDUSTRIAL STRUCTURE: PRIMARY SECTOR

	Output			Employment		
	% of GDP		Growth rate	% of total		Growth rate
	1971	1978	71-78	1971	1978	71-78
Agriculture and Fishing	1.8	1.3	-0.9	4.3	3.0	-3.0
Forests	0.7	0.7	3.1	0.9	0.8	0.0
Mines	1.8	1.3	-0.4	1.0	1.2	4.5
Total for Primary Sector	4.3	3.3	-0.1	6.2	5.0	-1.1

Source: Conference Board in Canada, Statistics Canada, Catalogue No. 71-001.

2.3.2 Agricultural Sector

Since 1971, there has been a loss of 20 000 jobs in the agricultural sector. In 1978 this sector employed only 72 000 people, representing 3 per cent of total employment in Quebec. Between 1961 and 1971, this sector had already lost 45 000 jobs. On the other hand, farm receipts have been increasing by 13.2 per cent annually since 1971, climbing from \$692 million to \$1 648 million. This is, of course, due to significant price increases in recent years.

The volume of agricultural output has been continuing to increase slowly, by about 1.1 per cent annually. On the whole, there have been few changes in the make-up of agricultural output; Quebec farmers still derive 80 per cent of their cash receipts from livestock products. Dairy products account for the greatest proportion, more than 40 per cent of total receipts, while crop products represent scarcely 10 per cent.

2.3.3 Forestry Sector

Although the employment level has remained constant, output in the primary forestry sector has been rising by an annual average of 3.1 per cent since 1971. Between 1971 and 1975, the value-added in output more than doubled. The share of the total value of Quebec shipments also showed an appreciable increase, reflecting the greater productivity brought about by the mechanization of forest operations. However, 1976 was a year marked by major strikes. As a result of intensive activity in the pulp and paper and wood-processing industries, the real domestic product in the forestry sector rose 12 per cent in 1978.

Despite the large sums spent by governments on reforestation and improved access to forest resources, this sector is faced with increasing difficulties in obtaining raw materials at competitive prices. The remoteness of forest resources and the slow growth of the forests result in increased costs which are passed on to the processing industries. The manufacturing industries tied to the forestry sector are a very important part of the Quebec economy; in 1976 they provided nearly 20 per cent of the jobs in the manufacturing sector.

2.3.4 Mining Sector

Although the mining sector accounts for only a small part of Quebec's total output (1.3 per cent in 1978), it is nonetheless an important sector for the development of certain regions of Quebec. With the growth of the oil industry in the west, Quebec's share in Canadian mineral production has been decreasing steadily. However, as the world's second largest producer of asbestos, Quebec still ranks first in the production of non-metallic substances.

Since the middle of this decade, the mining sector has experienced a difficult period. Depressed world markets, accumulated inventories and unfavourable prices have led to decreased output of several metals in Quebec, including copper and zinc. In real terms, the value of domestic output increased only slightly between 1971 and 1977. 1978 was marked by an improvement in prospects for gold and copper mines, but major strikes adversely affected the production of Quebec's iron and copper mines.

2.3.5 Manufacturing Sector

The Quebec manufacturing industry employed 589 000 people in 1976, representing 24 per cent of total employment in Quebec and 30 per cent of the manufacturing jobs in Canada.

Between 1971 and 1974 the performance of this sector was excellent, with investment increasing by an annual average of 37.1 per cent, employment by 2.6 per cent and shipments by 17.4 per cent. Wood products, pulp and paper, machinery and non-metallic mineral products made the best showings.

The years 1976 and 1977 were difficult ones for the manufacturing sector. After the employment peak of 1974, there were job losses in several industries, notably more than 20 000 jobs lost in the textile, clothing and leather industries. However, 1978 was a year of recovery. Shipments increased by 22.1 per cent, employment by 1.6 per cent after having registered a decline since 1975, and capital expenditures by 18.3 per cent. The two main factors that explain this revival in the manufacturing sector are the devaluation of the Canadian dollar, and the government measures introduced to give fresh impetus to the textile, clothing, leather and furniture industries.

As Table 6 shows, the performance of the manufacturing sector over the entire period was decidedly inferior to the Canadian and Ontario averages. Worker productivity showed a greater increase in Quebec than in Ontario, but the difference between the two regions remained considerable.

Table 6 DEVELOPMENTS IN THE MANUFACTURING SECTOR

1971-1978

AVERAGE ANNUAL GROWTH RATE (%)

	<u>Quebec</u>	<u>Ontario</u>	<u>Canada</u>
Shipments	13.9	13.7	14.6
Employment	0.0	1.8	1.5
Capital Expenditures	9.5	14.0	11.3

Source: Statistics Canada, Catalogue Nos. 31-001, 61-205, 71-001.

The Quebec manufacturing industry has been losing ground since 1961. Its share relative to that of Canada as a whole has decreased sharply in terms of both employment and capital expenditures. This relative decline is largely attributable to structural deficiencies which make it difficult for this sector to absorb the constant fluctuations in demand and to adapt quickly to new industrial development conditions.

TABLE 7

INDUSTRIAL STRUCTURE: MANUFACTURING SECTOR
EMPLOYMENT
(Total Activity)

	Employment (Number)		Total per Industry (%)		Quebec/Canada (%)		Growth Rate 1971 - 76	
	1971	1976	1971	1976	1971	1976	Quebec	Canada
Food and Beverage	59 700	57 775	11.7	11.0	27.3	26.2	-0.7	0.2
Tobacco	6 027	5 463	1.2	1.0	62.3	60.1	-2.0	-1.3
Rubber and Plastic	12 509	13 443	2.5	2.6	28.0	24.3	1.4	4.4
Leather	13 483	11 854	2.7	2.3	48.3	44.8	-2.5	-1.1
Textiles	36 615	34 131	7.2	6.5	52.8	50.0	-1.4	-0.3
Hosiery	14 517	14 360	2.9	2.7	60.7	61.0	-0.2	-0.3
Clothing	64 016	66 163	12.6	12.6	65.0	65.0	0.7	0.7
Wood Products	19 975	25 239	3.9	4.8	21.7	23.8	4.8	2.9
Furniture	17 648	18 296	3.5	3.5	41.0	38.2	0.7	2.2
Paper	42 125	45 923	8.3	8.8	35.2	35.3	1.7	1.7
Printing and Publishing	22 367	25 715	4.4	4.9	26.6	27.5	2.8	2.1
Primary Metal	25 291	26 695	5.0	5.1	22.1	22.8	1.1	0.5
Metal Fabricating	35 165	38 408	6.9	7.3	25.7	25.2	1.8	2.1
Machinery	12 656	18 158	2.5	3.5	17.8	20.4	7.5	4.6
Transportation Equipment	31 133	30 796	6.1	5.9	20.7	19.0	-0.2	1.6
Electrical Products	35 334	30 036	6.9	5.7	28.7	24.8	-3.2	-0.3
Non-Metallic Mineral Products	13 776	14 342	2.7	2.7	26.9	26.1	0.8	1.4
Petroleum and Coal Products	3 145	3 03	0.6	0.6	20.3	20.4	1.6	1.5
Chemicals and Chemical Products	27 061	26 702	5.3	5.1	35.0	33.6	-0.3	0.5
Miscellaneous Manufacturing Industries	16 048	17 730	3.2	3.4	27.9	26.7	2.0	2.9
TOTAL	508 591	524 632	100.0	100.0	31.2	30.1	0.6	1.4

SOURCE: Statistics Canada, Catalogue No. 31-203.

Quebec's manufacturing structure is relatively diversified, but at the same time heavily concentrated in the traditional industries based on forest resources (wood products, furniture, pulp and paper), which in 1976 accounted for 17.1 per cent of total employment in the manufacturing sector; and in the labour-intensive industries (textiles, hosiery, clothing and shoes), which provided 24.1 per cent of the jobs in manufacturing. Modern, rapid-growth, high-productivity industries are not nearly as well represented in the industrial structure of Quebec. Thus, in 1976 the equipment industries represented only 15 per cent of total manufacturing employment in Quebec, compared with 28 per cent in Ontario.

Quebec manufacturing industries export a large part of their output to other provinces and other countries. In 1974, 44 per cent of Quebec's manufacturing output was shipped outside the province: 15 per cent to other countries and 29 per cent to other Canadian provinces. Ontario is the largest Canadian importer of Quebec manufactured goods; in 1974, it accounted for nearly 65 per cent of Quebec shipments to other provinces. In 1974, 63.9 per cent of Quebec shipments to other countries consisted of goods produced by three high-productivity industries (pulp and paper, transportation equipment and the primary metal industry), while the goods shipped to other provinces were for the most part produced by industries unable to compete successfully on international markets, the textile industry, for example. In short, Quebec depends on outside markets for its manufactured goods. While Quebec is more dependent on shipments to other provinces than is Ontario, its shipments outside Canada are less than those of Ontario.

It will be difficult to restructure and revive the manufacturing sector, because the vitality of this sector depends to a great extent on its ability to stimulate the development of modern, innovative industries. Judging by the trends of recent years, private investment is on the wane; investment in the manufacturing sector accounted for only 12.7 per cent of total investment in 1978. In addition, investment is strongly concentrated in sectors in which Quebec is already highly specialized.

2.3.6 Construction Sector

The construction industry plays a leading part in the Quebec economy by employing 140 000 workers. It is also the best paid industry in Quebec. In 1978, average weekly earnings in this industry were up to \$417, 59 per cent higher than the average weekly earnings figure for Quebec.

Between 1971 and 1976 the industry experienced a period of vigorous growth, generated in particular by major public and private construction projects in the Montreal region. The number of housing starts also peaked in 1976. Since that time, the industry has been losing more than 5 000 jobs per year, from 146 000 employees in 1976, it fell to 135 000 in 1978. As well, housing starts have fallen back to the 1969 level.

2.3.7 Tertiary Sector

The tertiary sector is by far the most important in terms of employment, output and investment. It represents a major part of total Quebec economic activities, with 67 per cent of total employment, 62 per cent of the output value and 80 per cent of capital expenditures in 1978.

Table 8 INDUSTRIAL STRUCTURE: TERTIARY SECTOR

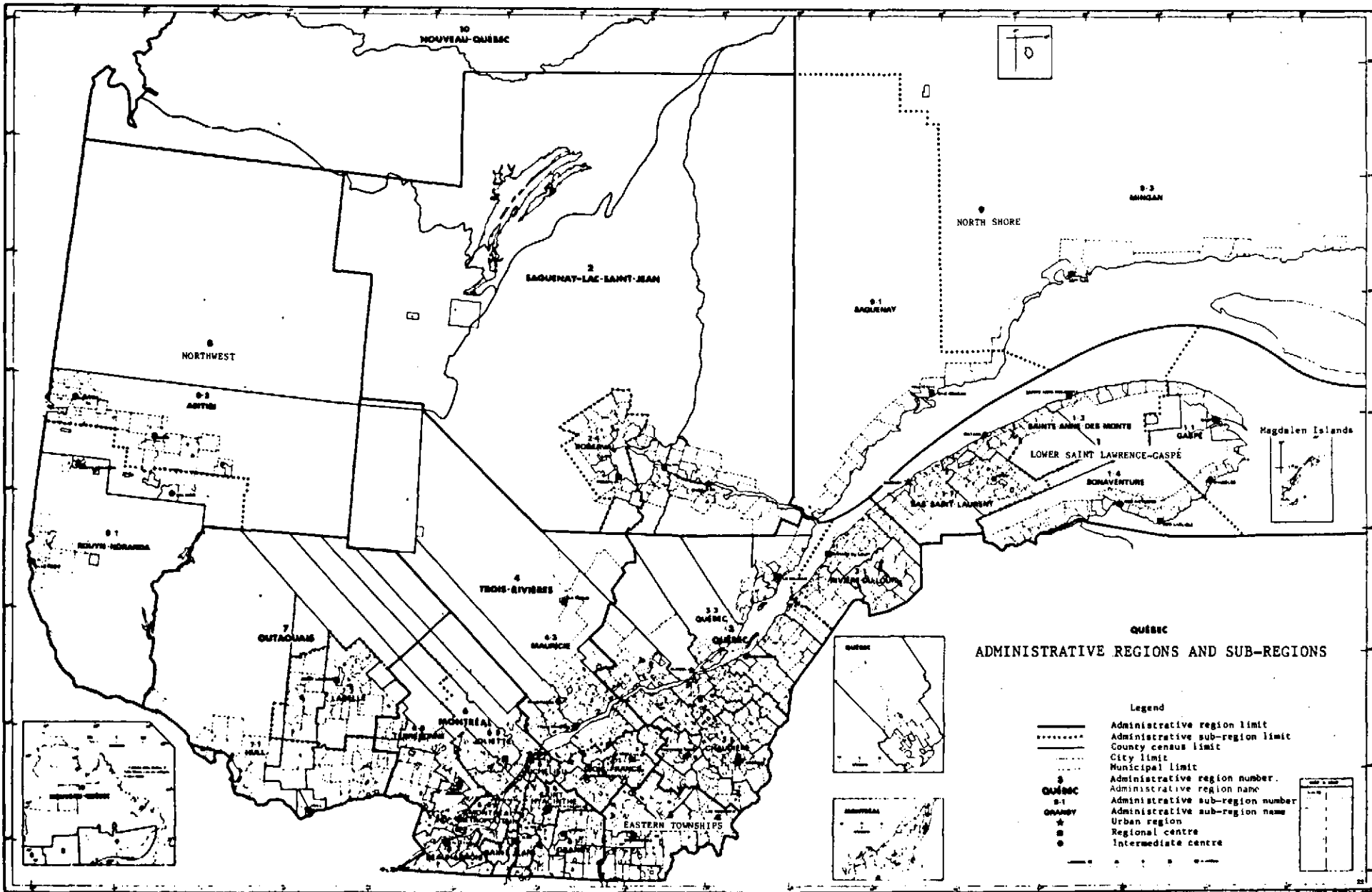
1971-1978

Employment (% of total)

	<u>1971</u>	<u>1978</u>	<u>Growth Rate</u>
Transportation and Utilities	8.5	8.8	8.3
Trade, Finance	20.1	22.0	3.5
Service	27.3	29.3	3.2
Public Administration	6.1	7.1	4.4
Total, Tertiary Sector	62.0	67.1	3.4

Since 1971 the growth of the tertiary sector has been responsible for 70 per cent of output growth in Quebec and for nearly all the jobs created. In 1978, 40 000 of the 47 000 jobs created in Quebec were in the tertiary sector. Since 1971 the service and trade sectors have created the greatest number of jobs in Quebec.

Increasing emphasis on the tertiary sector of the economy is a feature common to all industrialized countries. Between 1971 and 1976, this progressed to the point where two out of three Quebecers were employed in this sector. During the past two years, however, the growth of Quebec's tertiary sector has been slowing, particularly in trade, finance and research. The growth of Toronto and the shift of activity toward the west provide a partial explanation for the recent changes in these sectors.



QUÉBEC
ADMINISTRATIVE REGIONS AND SUB-REGIONS

Legend

- Administrative region limit
- Administrative sub-region limit
- County census limit
- City limit
- Municipal limit
- 1 Administrative region number
- QUÉBEC Administrative region name
- 0-1 Administrative sub-region number
- 0-1-1 Administrative sub-region name
- ★ Urban region
- Regional centre
- Intermediate centre



2.4 Regional Development

The distribution of economic activity throughout Quebec has not changed significantly since the beginning of the seventies, meaning that disparities in income and unemployment still exist. The factors, both external and domestic that have affected the development of the Quebec economy have influenced the economic performance of the various regions of Quebec in different ways.

2.4.1 Interregional Disparities

Examination of population trends reveals that the population in the Lower St. Lawrence-Gaspé region decreased between 1971 and 1976, chiefly as a result of young people leaving the region. The relative population of the resource regions also declined, as more people moved into the national and provincial capital regions. Only in the Quebec, Outaouais, North Shore and New Quebec regions did the population increase more rapidly than in the province as a whole during the 1971-1976 period. The relative proportion of the province's total population accounted for by the Montreal and Eastern Townships regions did, however, remain constant over this period.

Table 9 POPULATION IN THE ADMINISTRATIVE REGIONS OF QUEBEC

	1971 (000)	1976 (000)	Variation %	% of Provincial Total	
				1971	1976
Lower					
St. Lawrence - Gaspé	232.6	228.4	-1.8	3.9	3.7
Saguenay-Lac-Saint-Jean	281.0	285.4	+1.6	4.7	4.6
Quebec City	941.2	987.9	+4.0	15.6	15.7
Trois-Rivières	420.4	422.7	+0.5	7.0	6.8
Eastern Townships	224.2	229.6	+2.4	3.7	3.7
Montreal	3 423.6	3 540.7	+3.4	56.8	56.8
Outaouais	242.5	269.9	+11.3	4.0	4.3
Northwestern Quebec	148.2	148.7	+0.3	2.5	2.4
North Shore	100.7	155.2	+14.4	1.7	1.8
New Quebec	13.3	15.0	+12.1	0.2	0.2
TOTAL	6 027.8	6 234.4	+3.4	100.0	100.0

Source: Statistics Canada, Catalogue Nos. 92-604, 92-705, 92-803, compiled by DREE Quebec, 1977.

Regional disparities in labour market conditions varied over the course of the seventies. Thus, the difference between the unemployment rates in certain administrative regions and the provincial average varied during this period. As Table 10 shows, the unemployment index in the resource regions dropped from 176 in 1971 to 157 in 1978, while in the regions of central Quebec the situation deteriorated, with the index rising from 90 to 97 during the same period. The relative contribution of the various regions to the creation of new jobs in Quebec changed little between 1971 and 1978.

Table 10 PRINCIPAL LABOUR MARKET INDICATORS
(per cent)

		<u>Resource Regions</u>	<u>Montreal</u>	<u>Central Quebec</u>	<u>Total for Quebec</u>
		<u>Relative Importance</u>			
Labour Force	1971	10.5	60.0	29.5	100.0
	1978	10.6	59.3	29.3	100.0
Employment	1971	9.8	60.5	29.7	100.0
	1978	9.8	59.8	29.4	100.0
Unemployment	1971	18.6	54.6	26.8	100.0
	1978	16.6	54.7	28.7	100.0
		<u>Index</u>			
Unemployment Rate	1971	175.9	90.4	90.4	100.0
	1978	156.9	91.7	97.2	100.0
Participation Rate	1971	87.7	103.1	98.7	100.0
	1978	91.1	103.5	97.2	100.0

Source: Statistics Canada, Catalogue No. 71-001.

Since 1971, interregional disparities in income have become less marked. Thus, while the Lower St. Lawrence-Gaspé region still has the lowest per capita personal income, its situation improved compared with that of the whole of Quebec, with the index rising from 55.8 in 1971 to 68.1 in 1978. The Outaouais, Quebec City and Northwestern Quebec regions made the greatest progress in coming closer to the provincial average, while the Montreal and North Shore/New Quebec regions, which boast the highest per capita income figures in Quebec, have experienced a relative decline since 1971.

Table 11 PER CAPITA PERSONAL DISPOSABLE INCOME
IN THE ADMINISTRATIVE REGIONS OF QUEBEC

	1971 (\$)	Index Prov. of Que.=100	1978 (\$)	Index Prov. of Que.=100
Lower St. Lawrence -				
Gaspé	1 374	55.8	4 164	68.1
Saguenay-Lac-Saint-Jean	2 339	95.0	5 583	91.3
Quebec City	2 016	81.9	5 526	90.4
Trois-Rivières	2 026	82.3	5 074	83.0
Eastern Townships	1 907	77.4	5 074	83.0
Montreal	2 781	112.9	6 665	109.0
Outaouais	2 133	86.6	5 825	95.3
Northwestern Quebec	1 944	78.9	5 362	87.7
North Shore/New Quebec	3 310	134.4	6 901	112.9
Province of Quebec	2 463	100.0	6 115	100.0

Source: The Financial Post "Survey of Markets",
compiled by DREE-Quebec.

2.4.2 Montreal

The Montreal region is the only centre of development in Quebec; its economic situation inevitably influences that of the entire province. This region accounts for about 65 per cent of the total goods and services produced in Quebec. Its size and diversified range of activities make Montreal the only urban community in Quebec that can realistically be considered one of the major centres of North America.

However, for more than a decade the course of Montreal's development has given some cause for concern. Several studies have revealed that Montreal is experiencing a decline in relation to other North American urban centres. Montreal's loss of influence in North America is particularly evident in the tertiary sector -- the driving force of the economy -- in such areas as transportation, communications, financial services, research and head offices. It should also be noted that the economy of the Montreal region is handicapped by weaknesses in its industrial structure, which is concentrated in low-productivity industries. The non-durable goods industries make up a large part of the total, accounting for two-thirds of the region's employment. In addition, the Montreal metropolitan region has lagged behind Toronto in terms of population since 1976, as has manufacturing investment since 1962.

Economic activity in the Montreal administrative region made a good showing during the first half of the seventies, as a result of the major public works projects connected with the Olympic Games, which coincided with the upswing in residential, industrial and commercial construction. Since 1976, however, labour market conditions have been deteriorating steadily; the unemployment rate, rose from 6.5 per cent in 1975 to 9.4 per cent in 1977, and to 10.0 per cent in 1978.

The sharp decline in economic activity in the Montreal region since the completion of the projects related to the Olympics has made itself felt most strongly in the construction industry and investment spending. In fact, the value of building permits fell from the 1976 level of \$1.6 billion, to \$1.4 billion in 1977 and to \$1.2 billion in 1978. The value of building contracts awarded in the Montreal metropolitan region in 1978 amounted to \$966 million (27 per cent below the 1977 figure). In contrast, the Toronto region recorded \$1.9 billion in building contracts in 1978, a 2 per cent increase over the figure for the preceding year. All sectors of the Montreal construction industry recorded significant decreases in 1978, while in Toronto the commercial and industrial sectors experienced substantial increases of 49 and 45 per cent respectively. Public investments have also been falling off since the end of the Olympics. Several major government projects have had to be temporarily halted or staggered.

2.4.3 Quebec City

In recent years, the economic growth of this region has been closely linked to developments in the tertiary sector (which accounts for 72 per cent of regional employment), with the service and public administration sectors providing the greatest number of jobs. The vitality displayed by these two sectors has made for favourable labour market conditions in the past few years; the region's job creation rate was higher and the unemployment rate lower than the provincial average. In 1978 the unemployment rate in the Quebec City administrative region was 9.8 per cent, compared with 10.9 per cent for the province as a whole, while the 58.5 per cent participation rate was much the same as that for the province.

Employment in the region's manufacturing sector is below the provincial level. It should, however, be noted that a sizeable proportion of the industrial structure is made up of traditional industries, notably the food and beverage, leather, textile, hosiery, clothing, and paper industries. These industries provide 46 per cent of the manufacturing jobs

in the Quebec City administrative region. The transportation equipment industry, however, occupies first place in the region's manufacturing structure. The manufacturing sector employs only 15 per cent of the regional labour force. Although it is fairly diversified but lacks vitality. Employment in the manufacturing sector grew more slowly in the Quebec City region than in any other metropolitan region in Canada during the 1961-1977 period. Since the start of the seventies, in fact, employment in this sector has been declining steadily in metropolitan Quebec City, with the index dropping from 97 in 1971 to 77 in 1978.

Manufacturing investment in the Quebec City metropolitan region represented only 2 per cent of the province's total manufacturing investment in 1978. Since the beginning of the seventies, capital expenditures have been concentrated mainly in governmental, institutional, commercial and residential construction. The number of housing starts has increased at a remarkable rate, and major engineering projects have included the completion of the highway network and the construction of several office buildings.

2.4.4 Trois-Rivières

After improving steadily from 1971 to 1974, labour market conditions in the Trois-Rivières region entered a period of decline that lasted right into 1978. The decrease in the labour force was not enough to compensate for the significant drop in employment, so the unemployment rate, which stood at 10.9 per cent in 1975, rose to 11.8 per cent in 1978. Job losses were especially numerous in the industrial sectors and in several large communities when a number of businesses in the traditional sectors closed their doors.

The main features of the economy of the Trois-Rivières region are a relatively well-developed primary sector centred on agriculture and the exploiting of forest resources, and a sizeable, diversified manufacturing sector. The tertiary sector occupies a less important position than it does in the province as a whole. As is the case in most Quebec regions, the health of this economy depends to a great extent on the international market situation and decisions made elsewhere. The breakdown of the regional industrial structure is as follows: the primary sector accounts for 9 per cent of employment; the secondary sector for 38 per cent (of which 33 per cent is in the manufacturing sector); and the tertiary sector for 53 per cent.

The Trois-Rivières region is the most industrialized region in Quebec. Its manufacturing sector is fairly diversified, despite the presence of important traditional industries such as the paper, textile, clothing, primary metal,

and food and beverage industries. These five major groups provide close to 60 per cent of the manufacturing jobs in the region. Large-scale companies occupy an important place in the regional manufacturing structure.

Since the start of the seventies, investment has been channelled into industrial development, particularly the Bécancour industrial park, and into the development of infrastructure (roads, industrial parks, and tourism parks).

2.4.5 Eastern Townships

The unemployment rate in the Eastern Townships region has varied from year to year; sometimes it has been higher and at other times lower than the Quebec average. The factors that explain this situation are the slow growth of the labour force and the large number of women who leave or re-enter the labour market as economic conditions fluctuate. Thus, in 1976 the unemployment rate in the Eastern Townships region was higher than that in the whole of Quebec (9.3 per cent, compared with 8.7 per cent), while in 1978 the rate was 8.4 per cent in the Eastern Townships and 10.9 per cent in the province. At that time the Eastern Townships had a lower unemployment rate than any other administrative region in Quebec. The participation rate also decreased significantly, falling from 58.8 per cent in 1976 to 56.8 per cent 1978. Labour market conditions picked up noticeably over the course of 1978 as a result of increased activity in the manufacturing sector.

The industrial structure of the Eastern Townships region differs greatly from that of the province as a whole. In terms of employment, the primary sector is twice as important as that of Quebec; the secondary sector, particularly the manufacturing industry, is also more important in this region; while the tertiary sector occupies a more modest position than it does in the provincial economy. Regional employment is distributed as follows: the primary sector provides 9 per cent of the jobs, the secondary, 29 per cent (with 26 per cent in manufacturing), and the tertiary sector accounts for 62 per cent. The greatest number of jobs in the primary sector are in agriculture and in the asbestos mines, while the manufacturing sector is for the most part based on such traditional industries as the textile, clothing and paper industries, which account for 45 per cent of the region's manufacturing jobs. The tertiary sector has developed considerably since the beginning of the seventies, in particular the service and trade activities.

2.4.6 Outaouais

After making impressive progress in the first half of the seventies, employment came to a virtual standstill in 1976, while the labour force continued to grow, although at a slower rate than previously. The combination of a stagnant employment situation and the arrival of newcomers to the labour market caused the unemployment figure to shoot up in 1977 and 1978. The number of people out of work jumped from the 1976 figure of 10 000 to 14 000 in 1977 and to 16 000 in 1978. The unemployment rate thus climbed from 9.2 per cent in 1976 to 13.2 per cent in 1978 in the Outaouais region, while in the whole of Quebec the rate rose from 8.7 to 10.9 per cent over the same period. Although the deterioration of labour market conditions is largely attributable to cutbacks in hiring in the Public Service and the sluggishness of construction activities, the situation has been aggravated by the closing of a number of factories, which has contributed to the increase in the number of people looking for work.

Since the regional economy depends chiefly on the tertiary sector, the bulk of investment is accounted for by government activities, particularly those of the federal government. Numerous construction projects were undertaken in recent years, notably the office buildings constructed as part of the federal program to relocate a number of Public Service employees to Hull. The value of building permits, however, has decreased significantly since 1976, falling from the \$312 million recorded that year to \$101 million in 1978. In the manufacturing sector, investment was generated mainly by the pulp and paper and food and beverage industries.

The growth of the regional economy depends to a great extent on the contribution of the tertiary sector, which occupies a more important place in the industrial structure than is the case in any other region. This dependency on tertiary activities and the lack of natural-resources processing industries are at the root of the problems currently facing the Outaouais economy. At present, the primary sector provides only 4 per cent of the region's employment, the secondary sector 18 per cent, and the tertiary sector 78 per cent, of which 45 per cent is accounted for by the government sector. The manufacturing sector, which employs only 11 per cent of the labour force as opposed to 22 per cent in Quebec, is characterized by an extremely high level of specialization. Manufacturing is based mainly on industries connected with wood-processing (the pulp and paper, wood products and furniture industries), which provide nearly 60 per cent of the manufacturing jobs in the region.

2.4.7 Resource Regions

The resource regions include the Lower St. Lawrence - Gaspé, Saguenay-Lac-Saint-Jean, Northwestern Quebec and North Shore/New Quebec regions. These regions are characterized by natural resources exploration and exploitation. Manufacturing activities are strongly concentrated in the food and beverage, wood products, paper, and primary metal industries.

Starting in the early seventies, most investment in Quebec was channelled into the resource regions for the processing of natural resources. The main projects include the James Bay and Manicouagan hydro-electric power dams, the Alcan aluminum plant in La Baie, the pulp and paper mill in Saint-Félicien, the Forex-Leroy particle board mills in Val-d'Or, and the sizeable iron mining investments made by Iron Ore, Quebec Cartier Mining and Sidbec Normines on the North Shore.

The industrial structure in these regions has changed to some extent since 1970, with the tertiary and manufacturing sectors gaining in importance, at the expense of the primary sector. In 1978, the tertiary sector provided 60 per cent of the jobs in these regions, the secondary sector 26 per cent and the primary sector 14 per cent.

2.5 Medium-Term Development Outlook

Several factors shaped economic developments in the seventies, and their influence will continue into the eighties. The cost of energy will remain high, and the investment required to tap the abundant energy resources in the west could accelerate the westward shift of economic activity that characterized the seventies. The results of the GATT negotiations appear to have opened up new possibilities with regard to the local processing of the principal natural resources, but the stability of several traditional industries is far from assured, faced as they are with international competition. Finally, there is no reason to expect any appreciable improvements in the international situation, which will again be dominated by the problems of unemployment and inflation.

In these circumstances, and judging by the developments of the last twenty years, Quebec's position in relation to Canada as a whole will probably deteriorate further.

On the conservative assumption that over the next few years there will be a zero migration balance and the birthrate will stabilize, population growth in Quebec will remain below 1 per cent, and by the mid-eighties Quebec could account for less than 25 per cent of Canada's population. In the longer

term, the aging of the population will mean that government priorities will turn increasingly toward social security, housing for senior citizens, and medical and hospital care.

During the seventies, the female labour force grew rapidly, and a great many women found work in the tertiary sector. The participation rate for women will continue to climb during the eighties, but at a decreasing rate, so that the growth of the total labour force should amount to an annual average of less than 2.5 per cent. To bring the unemployment rate down to about 6 per cent, more than 65 000 jobs per year will have to be created in Quebec between now and 1985.

Investment growth has been slow since 1976, and has been largely sustained by major government projects such as James Bay. Since few major public or private sector projects on the scale of those of the seventies have been announced, growth in output is unlikely to reach the level achieved in the first half of that decade. It is more realistic to expect that on the average it will be somewhat over 3 per cent annually; as a result, the job creation rate will not be much above current levels of less than 2 per cent per year. Until 1985 at least, it is likely that Quebec will continue to experience a high unemployment rate.

3. PRINCIPAL SUBJECTS OF INTEREST

The performance of the Quebec economy has been marked by a number of factors influencing its growth. Quebec has had to deal with persistent unemployment shared unequally by various regions. This is particularly true for the Montreal region, whose relative importance compared to Quebec as a whole is gradually declining. The Quebec economy is also handicapped by structural deficiencies which are most apparent in the manufacturing sector, which includes a high proportion of traditional industries. While these factors represent a general context of which the economic growth of the past two decades is a part, this section will examine those aspects which will likely require government action in the more immediate future.

3.1 Industrial Adjustment

Even though, over the past few years, the manufacturing industry in Quebec has had to adapt to changing economic conditions, the present period of industrial adjustment resulting from a greater liberalization of international trade and increased competition may well be crucial for a large proportion of Quebec's manufacturing industry. Certain industrial sectors will have to modernize and rationalize production much more rapidly than in the past. Because of the very nature of the province's industrial structure, Quebec will be affected much more than the rest of Canada by the industrial adjustment process.

Quebec's industry is largely concentrated in the non-durable goods sector and in traditional industries. The most immediate problem for Quebec's manufacturing industry is the present situation of the traditional leather, textiles, clothing and furniture industries. Although these industries still occupy an important place in Quebec's industrial structure, their competitive position has declined sharply in recent years.

A quick review of the principal sectors that will be influenced by expected changes in international trade will highlight the necessity of proceeding quickly with the development of adaptation measures for these sectors.

Primary Textiles

Some 10 000 jobs were lost in the primary textile sector in Quebec between 1973 and 1977, with the majority of these layoffs occurring in the last two years of the period. Reflecting this fall in employment, there has been a marked slowdown in capital investment since 1974, and a decline in the real value of shipments from Quebec during the same period. Quebec's share of total Canadian shipments has stagnated at around 51 per cent since 1973.

The main problem facing the primary textile industry is imports, a problem that manifests itself in two ways. On the one hand, massive clothing imports seriously affect domestic manufacturers of these products, who normally receive about 45 per cent of Canadian textile production. On the other hand, the trend toward synthetic textiles in this industry has enabled countries such as the United States and EEC countries to capture a large share of the Canadian fabric market. This problem is compounded by the technology lag, a constant feature of the Quebec textile industry. Labour costs have also put the domestic industry at a disadvantage. It is therefore understandable that companies in this sector have had difficulty in generating the cash flow required to modernize and rationalize their activities.

Clothing and Hosiery

By far the most important in terms of employment, this industry is also the most vulnerable to foreign competition, mainly because of serious structural problems. Between 1973 and 1977, the number of jobs dropped by over 9 000 and the real value of shipments increased by 4.8 per cent until 1976, when it increased by only 0.5 per cent. Capital investment continued to fall throughout this period, both in absolute terms and in terms of Quebec's share of the Canadian total, dropping from 55.2 per cent in 1973 to 45.4 per cent in 1977. Imports, mainly from countries with low production costs, have increased considerably in the past few years. In 1976, the share of imported clothing amounted to 26 per cent of the market, and imported hosiery 54.4 per cent.

A feature of the clothing and hosiery industries is the large number of very small production units, in which the introduction of advanced technological processes is not economically feasible.

The important question faced by the textile and clothing industry is: does the industry require support to maintain the relatively good level of performance it has had in recent years?

Footwear

The picture is more or less the same in the footwear as in the clothing and hosiery industries. Employment has fallen off considerably, as has capital investment in real terms. Quebec's share of Canadian investment in this industry decreased from 31.3 per cent in 1971 to 20.8 per cent in 1976. Shipments fell by an average of 1.8 per cent per year throughout the same period.

The main problem facing the footwear industry is linked to massive imports, not only from developing countries but also from industrialized countries such as Spain, Italy, the United Kingdom and the United States. For some years the industry has made a considerable effort to restructure its activities, as reflected in a growing number of larger size firms. Growth in economics of scale should contribute to a recovery in this industrial activity.

Other Activities

In a less obvious manner, the electrical and electronic products industry is also susceptible to adverse impacts caused by the importation of foreign products. These difficulties have faced the industry for a number of years.

All of these industries combined provide about 30 per cent of the manufacturing jobs in Quebec. It is, therefore, of primary importance to the economy that these industries be restructured on a solid basis.

Corrective Measures

There has recently been a distinct improvement in the level of activity in these industries due to a number of factors. Measures taken by the federal government to curb the entry of clothing and footwear into Canada, along with the abolition, by the Quebec government of sales tax on these products, and the devaluation of the Canadian dollar are among the main reasons for a significant recovery. Figures for jobs and shipments have increased, factories are operating at almost full capacity, and companies have been able to substantially improve their financial situation, which will in turn permit modernization of production equipment.

However, these essentially temporary favourable factors should not be regarded as a basis for a long-term strategy for the recovery of these sectors. In view of the vulnerability of these industries to external pressures, it is essential that any modernization scheme be initiated within a framework of relative protection, guaranteed for a long enough period to allow the action taken to produce the desired results. The latest Geneva agreements on international trade imply that the desired conditions for a large-scale program to reorganize traditional industries will probably be created in the next few years.

The industrial adjustment process is becoming acute in that the large majority of these jobs are concentrated in a few industrialized regions in the heart of the province, where the

clothing and textile industries in particular play a major role in regional industrial structure. At present about half of the potentially vulnerable jobs are located in the Montreal region, where the clothing industry employs some 45 000 workers. It should also be noted that in the economic regions of Montreal, the Eastern Townships and the Saint-Maurice Valley, there are a considerable number of small and medium-sized communities which are potentially vulnerable.

In the last two decades, the manufacturing industry in Quebec has not succeeded in adapting completely to changing market conditions; as a result there has been a noticeable deterioration in its position compared to Canada as a whole. The new environment arising out of the recent GATT agreements will no doubt require Quebec industry to increase its rationalization efforts in order to adapt to the more active competition in certain sectors and to maximize the benefits of deeper penetration of foreign markets in certain other sectors.

In this context, it is essential that an aggressive program of industrial redirection be implemented in Quebec, a double-barreled program to both encourage consolidation in the traditional industries and promote the development of high-growth, high-productivity industries so that Quebec can maintain its relative position within Canada.

3.2 Quebec's Financial Situation

Until 1974, Quebec's financial situation was relatively sound -- its budgetary deficits rarely exceeded 5 per cent of the budget and public borrowing was never greater than \$500 million. Since then the financial situation has deteriorated in spite of the government's efforts to improve public finances and maintain an adequate manoeuvring margin. Budgetary deficits in recent years have been nearly 10 per cent of the budget, and the per capita public debt has doubled in the last four years.

While Quebec has not indexed personal income tax (which would increase the burden on taxpayers), tax revenues have declined sharply as a result of weakness in economic activity. This has forced the government to turn increasingly to other means of financing its expenditures, which will exceed \$15 billion in 1979-80.

The main feature of the financial situation in recent years has been the considerable increase in the rate of government borrowing. In fact, Quebec has resorted to public borrowing more often than all other provinces combined. In 1977-78, the other provinces borrowed \$800 million on the money markets, while Quebec alone borrowed more than \$1 billion. Ontario, Saskatchewan, Alberta and British Columbia, which are

in a better financial situation, did not have to resort to public borrowing at all. The long-term financing of the Quebec public sector (including Hydro-Quebec, government corporations and the municipalities), which represented 6 per cent of gross domestic product in 1972, rose to almost 9 per cent in 1978.

After two years of more than 20 per cent growth, government spending has increased less rapidly since 1975, though still at a rate above that of the growth in output. Expenditures will reach \$15 billion in 1979-80, and the government will have to borrow \$1 400 million to meet the anticipated deficit. Even though much of the government's funding requirements are covered by the Caisse de dépôts et placements du Québec, \$600 million will have to be borrowed on private money markets at a rate of interest generally 1 per cent higher than that which Ontario would pay for the same loan.

Quebec's financial situation is also characterized by the fact that its fiscal capacity is lower than the average for all provinces and the tax burden of Quebec taxpayers is the highest of all Canadian provinces. The fiscal capacity index, which represents the revenues that Quebec is able to raise by applying to all its tax bases at an average rate calculated for all of Canada, has deteriorated relative to the other provinces since 1973, as is apparent from Table 12.

The index was 17 per cent below the national average in 1973-74 and 24 per cent below in 1978-79, due mainly to the relative weakness in economic activity. In addition, Quebec is the province which makes the greatest use of the various sources of

Table 12 FISCAL CAPACITY AND TAX BURDEN
(by province)

	Fiscal capacity index*			Tax effort index	
	<u>73-74</u>	<u>75-76</u>	<u>78-79</u>	<u>75-76</u>	<u>77-78</u>
Newfoundland	61.0	61.4	57.5	115.9	119.9
Prince Edward Island	60.4	54.2	51.9	132.3	110.7
Nova Scotia	68.8	63.7	62.1	97.9	92.9
New Brunswick	69.5	67.1	61.3	112.2	90.6
Quebec	83.0	77.7	76.4	119.4	126.4
Ontario	107.1	96.5	90.1	97.4	96.3
Manitoba	84.2	79.6	73.9	100.0	98.3
Saskatchewan	83.5	105.5	99.8	112.3	111.1
Alberta	152.2	237.4	255.5	73.6	79.3
British Columbia	126.0	106.8	117.5	106.1	98.1

* Does not include local government finance.

Source: Department of Finance, compiled by DREE Quebec.

income at its disposal. In addition, the province has no margin for increasing revenues through its own taxation sources. Any increase would risk making the tax burden excessive and compromising Quebec's economic socio-development.

Despite this difficult financial situation, Quebec is the province which devotes the largest amounts to industrial development activities, including development of natural resources, agriculture, tourism, industry, trade and commerce. These expenditures, about \$655.7 million in 1978-79, represent 5 per cent of the total budget, whereas Ontario spends only 3.5 per cent of its budget on industrial development.

3.3 Transportation Policies

Because of Quebec's particular geographic situation, the transportation sector has always exercised a strong influence on its economic development. The passage of a major waterway through the province and Quebec's proximity to American markets have resulted in considerable development of transportation facilities and have made Montreal a major transportation centre, especially for air and shipping traffic. However, development of the transportation system in Quebec has not been consistent for all modes, particularly with respect to rail and air transportation.

Rail Transportation

All regions of the province can be reached by rail, although Quebec, at present, has only 12 per cent of the rail facilities in Canada.

There has been a substantial increase in recent years in the cost of transporting newsprint produced in Quebec to the rest of Canada and to the United States, whereas newsprint from the southern United States has been exempted on several occasions from periodic price increases by the rail companies. The competitiveness of Canadian producers has suffered as a result, since the cost of transporting a ton of newsprint produced by mills in central Quebec may be up to \$19.68 more for the same distance than for a metric ton produced in the southern United States. Newsprint producers in eastern Canada have tried unsuccessfully to obtain rate reductions from Canadian and American rail carriers.

Air Transportation

The creation of an air transportation system contributed in large part to reducing the degree of isolation of several regions of Canada.

The problems facing Quebec with regard to air transportation are of a different order and concern the leading role that Montreal has historically played. Until the beginning of the 1970s, the Montreal area had a favoured position with respect to international air traffic, as all carriers had Dorval International Airport as their final destination. Accordingly, passengers from abroad made their connecting flights on Canada's domestic airlines to and from Dorval. The situation has changed considerably in the last ten years, and Montreal's position has declined as the result of the granting of landing rights at Toronto to more and more foreign carriers. This development has resulted in a much sharper increase in passenger traffic in Toronto than in Montreal. This explains in part the poor performance of Mirabel Airport, which has failed to produce the expected results in terms of air traffic and resulting economic activity.

Water Transportation

Of particular interest are the effects of the construction of the Saint Lawrence Seaway, which has among other things, enabled Quebec ports to secure a larger share of transshipment traffic, mainly grain and iron ore. Prior to 1958 these products had been routed through other ports. Without the seaway, eastern American ports would have had a great deal more traffic, since a high proportion of iron ore originating in Quebec was shipped to these ports and from there to steel mills further west. Construction of the seaway noticeably altered this pattern; iron ore is now being shipped by oreboats which, on their return trip, transport grain stored in ports along the St. Lawrence River at Quebec City, Baie-Comeau and Port-Cartier. Prior to 1958, part of the grain was shipped by rail from the eastern end of the Great Lakes to grain elevators in Montreal. The drawback to this method was the problem of return traffic to the Great Lakes, a problem which naturally no longer exists with the seaway. In short, the seaway has brought about a considerable increase in transshipment activity in the North Shore ports and Quebec City, while in the port of Montreal there has been a slowdown.

In addition, construction of the seaway has had a considerable impact on iron-ore mining operations on the North Shore, especially in terms of reduced transportation costs. As a result, iron ore from Quebec has become more attractive to American steel mills. Until 1958, mines in northern Quebec could ship only small quantities of iron ore (1.3 million metric tons in 1958) through the old St. Lawrence canals. In 1976, 17.8 million metric tons were shipped to American steel mills.

Considering the many sources of supply these mills have, the effect of the seaway has been to reduce the transportation costs per ton of iron ore from Quebec, and thereby broaden the market for Quebec iron ore mines.

The lack of a Canadian merchant marine has confined east-coast Shipbuilders to the repair of ships and the construction of boats for foreign shipowners or for the Canadian navy. Foreign competition, particularly Asian, has considerably reduced activity in this sector. The announcement, by the federal government, of a policy in this area could ensure the survival of the shipyards of Quebec and the Atlantic Region.

3.4 The Energy Situation

In the spring of 1978, the Quebec government presented its energy policy, the main objective of which was to increase the province's energy self-sufficiency. To this end, the policy attempts to encourage more efficient use of energy, increase the security of the imported energy supply, and between now and 1990, to double the proportion of Quebec energy in the province's total energy resources. The following table shows Quebec's energy resources in 1975 and targets for 1990.

	Consumption		Annual Growth %
	1975	1990	
Electricity	22	41	5.6
Coal	1.5	1.5	0
Petroleum	70	45-50	-1.5
Natural gas	6	6-12	-
Alternative Energy Sources	0	2	-

Quebec is striving to reduce by 50 per cent the amount of petroleum in its energy resources; it is 70 per cent at present. The government is counting mainly on development of its hydro-electric resources and the increased use of natural gas.

Quebec's extensive hydro-electric energy resources give it an advantage over other parts of the country. The James Bay development is about one year ahead of schedule and is staying within budget (allowing of course for increases due to inflation). Hydro-Quebec has not yet made public its plans for future developments. These could be expected to be in the area of the Nottaway, Broadback and Rupert rivers in the same basin, or on the rivers in the Labrador basin, in which case an agreement would have to be reached with Newfoundland. Hydro-Quebec should be making public its choices by the end of 1979. Costs for these projects will be lower than for previous projects, since transmission lines are already in place.

Nuclear energy would appear to be a last resort at this stage: Quebec is presently negotiating the termination of its nuclear program. It is expected that Gentilly II will be the last nuclear station built for a number of years.

Quebec is also attempting to double the proportion of natural gas in its energy resources by 1990. At present, only the Montreal area is served by natural gas, but two projects are now under study to extend the distribution network, one submitted by Trans-Canada Pipeline and the other by Quebec and Maritimes Pipeline. Both projects are aimed at supplying natural gas to the eastern part of the province, and both are acceptable to the province. Natural gas service would then be extended to the Maritimes within a fairly short time.

Because of direct job creation during construction, the impact of the project would be considerable. In addition, liquefaction plants would be required, at least temporarily, to handle peak loads and to liquefy the gas for shipment by truck or barge. Quebec shipyards would be able to obtain contracts for transportation equipment. It is also expected that the destination point will one day become the head of the pipeline for routing Arctic gas to the west. This would involve construction of a liquefaction plant in the far north, a gasification plant at the head of the pipeline and ice-breaking liquefied natural gas (LNG) carriers.

Since the gas distribution network would extend as far as the Maritimes, the destination point for Arctic gas could be located there. As a result, there will be competition between Quebec and the Maritimes, and each can be expected to exert political pressure.

Regarding the construction of ice-breaking LNG carriers, it is known that Canadian shipyards are under-utilized. They can therefore be expected to wage stiff competition for contracts. Partnerships are already being formed with foreign shipyards having the necessary technical expertise in transporting gas or in building heavy ice-breakers.

3.5 Investment Climate

While Quebec's recent economic performance has been generally satisfactory (given the overall economic situation in North America), it is often pointed out that improved socioeconomic conditions would create a healthier investment climate and encourage more economic growth. By investment climate is meant the total of economic, social and political factors entering into an investment decision, and perceived as such by the business community. Defined in this way, the investment climate has to do with factors external to a projected investment, factors likely to be influenced by individual views and attitudes. In contrast, internal factors deal mainly with technology, markets, profitability and the expected return on the investment.

For several years now, the business community and private enterprise in general have expressed their concern over what they see as the deterioration of socio-economic conditions as a result of certain government legislation. They also appear to be trying to establish a cause-and-effect relationship between the rate of growth of investment, particularly in the manufacturing industry, and a social climate that gives little incentive to stronger economic development.

While it is difficult to make a connection between the extent of investment and the views of any particular group, it should be kept in mind that a considerable segment of the business community has on many occasions adopted a very critical attitude toward the Quebec government, particularly with respect to language of instruction and taxation rates applied to management and high-income positions. Groups representing private enterprise interests have repeatedly pointed out that these factors have a negative effect on the investment climate in Quebec. The fact that people from outside Quebec are compelled to enroll their children in the French educational system has, in the view of the business community, caused many investors to look elsewhere in Canada for making new investments. Similarly, head offices, large service-industry firms and research centres seem to be experiencing difficulty in recruiting professional staff, because personal income tax rates are proportionally higher in Quebec than anywhere else in Canada.

While it is true that these factors can influence the behaviour of a certain segment of private enterprise, the difficulty of determining their impact on the growth of investment must also be recognized. Opinions expressed by the business community tend to be more negative in Montreal than in other parts of the province, and relate more to the upper tertiary sector than to the manufacturing sector. They come mainly from head offices, industrial research centres, innovation and development firms, and related service activities. The major investment in this sector is in human resources, while capital investments are less sizeable, consisting mainly of office space. This sector appears to be more vulnerable to changes in socio-economic conditions, and places proportionally more importance on personal income tax rates in Quebec and the problem of language of instruction.

While the Montreal area has seen a number of moves out of the province by businesses in this sector in particular, this is not a new trend, but rather part of a general westward movement of economic activity. Despite the fact that high taxation rates and the language of instruction are matters of concern for the business community, these factors alone do not explain the drop in activity in the Montreal area.

4. DEVELOPMENT OPPORTUNITIES

4.1 Comparative Advantages

While development of the industrialized economies occurred in the past through improvement in technology, the growth of these economies in the coming years will depend more on the presence of natural resources, the availability of energy and especially on the quality of their working population.

Although Quebec is not the richest part of Canada in terms of known and easily-accessible natural resources, it is one of the most developed regions of the world as a major source of raw materials. Its particularly well-developed forest and mineral resources have enabled Quebec to reach sizeable markets and to create vigorous industrial sectors, which provide a third of the manufacturing jobs in the province. Aside from the pulp and paper and lumber sectors, a limited proportion of these resources is processed in the province. Quebec will remain a supplier of raw materials, but its natural resources could become increasingly valuable with the growing scarcity of energy. Its large resources of hydro-electric power will undoubtedly assist in the development of all raw materials.

The extraction and processing of natural resources requires a great deal of energy. Quebec has a valuable comparative advantage in this regard. Available hydro-electric power (20 500 megawatts in 1977) is expected to exceed 40 000 megawatts by the end of the 1980s. At a time when electricity for industrial use is being rationed everywhere in the world, Quebec continues to develop additional capacity of thousands of megawatts for industrial use at competitive prices.

The arrival on the job market of people born in the postwar baby boom, as well as the considerable efforts made by Quebec since the mid-sixties to modernize its education system, will be an important advantage in the eighties. Quebec has a young labour force, with nearly 28 per cent in the 15 to 25 age group, and this work force is becoming increasingly skilled. While in 1960 almost 45 per cent of the labour force had seven years of education or less, this proportion dropped to 32 per cent in 1976. Attendance at training and development courses in CEGEPs and universities demonstrates the desire of the population to acquire the skills they need to enter the job market and increase their productivity.

Despite the shift of economic activity to the western North America, Quebec is still in a good position to gain access to even larger consumer markets: eastern North America and Europe. Also, Quebecers have tended to become more involved in the development of their economy, and the rapid growth of Quebec-based financial institutions has enabled savings to be directed toward "home-grown" projects in various parts of the province.

4.2 Development Opportunities by Sector

Quebec's economic development is based primarily on making maximum use of the province's comparative advantages. This development, however, cannot take place without a vigorous and alert enterprising spirit that can take advantage of each of the development opportunities that arise out of an analysis of the major activity sectors in Quebec. The following will attempt to identify, in the light of available information, some of these development opportunities.

4.2.1 Agro-Food

The agro-food sector, which extends from farm production to retail sales, continues to be a vital sector in the Quebec economy. It comprises over 200 000 jobs, or nearly 8 per cent of the provincial labour force. Regionally, the agro-food sector ranks first almost everywhere in the province. In general, however, there are clear signs of weakness which considerably limit its development and its influence on other sectors of the economy. Stagnation of domestic demand, problems of self-sufficiency, weakness of exports and the predominance of imports on the market are the major obstacles to greater development.

Among the problems in the primary agricultural sector, are the low profitability of farm operations, the quality of relief, drainage, outmoded production facilities and methods and, to a point, the fragmentation of supply. Regarding the last point, it should be added that technological progress has brought about an increase in farm productivity, but with fewer jobs as a result.

The processing sector, however, is characterized by a large number of small units faced with a corporate concentration often controlled by national or multinational corporations. The most serious problem, however, is the loss of competitiveness, especially with respect to the United States. As a result, Quebec farm products tend to sell poorly in the States, while American produce takes an increasing share of the domestic market in Quebec. The depreciation of the Canadian

dollar against the American dollar only partially offsets the worsening of Quebec's competitive position in the agro-food industry. Small and medium-sized firms in this sector have other problems as well, particularly quality control and marketing. Their chances of survival are becoming increasingly slim in the face of a very concentrated distribution system.

Self-Sufficiency and Foreign Dependence

It is useful to examine the state of self-sufficiency in the agro-food sector in Quebec and the factors affecting it, to single out the types of production offering the best opportunities.

In consumption, analysis shows that per capita consumption of meats, fruits, vegetables and poultry has increased over the long term, but consumption of milk, eggs and potatoes has decreased.

The degree of self-sufficiency, or the rate of market coverage by Quebec producers, is high for dairy products (141%) and pork (101.8%), and low for beef (18.3%), fruits (11.3%), vegetables (41.8%) and grains (35.4%). In addition, for those commodities with the best outlook for growth in per capita apparent consumption (beef, fruits and vegetables), the degree of self-sufficiency indicates a downward trend, as shown in Table 13. Domestic supply is thus only to a slight extent directed toward the healthy demand. Attempts to emphasize the replacement of imports by domestic production are not without limitations, but neither are the problems insurmountable.

Exports of food products from Quebec are marginal compared to total food exports for Canada. Quebec's exports are concentrated in a few commodities, particularly in the dairy sector. It must be noted however, that the recent opening of the European Economic Community market for cheddar cheese has created a sales potential of 3.2 million kilograms per year.

Table 13

DEGREE OF SELF-SUFFICIENCY BY
FOOD COMMODITY IN QUEBEC, 1970-1976

(per cent)

	<u>Average 1970-74</u>	<u>1976</u>	<u>1977</u>
Milk and Dairy Products	122.6	130.5	141.0
Livestock and Meat (Except Poultry)	44.7	45.7	46.3
- Beef	24.1	20.6	18.3
- Pork	71.8	96.0	101.8
Poultry Farming			
- Poultry meat	106.3	93.7	94.5
- Eggs	63.3	69.0	65.8
Fruits and Vegetables			
- Fruits	21.3	17.7	11.3
- Vegetables and Potatoes	45.5	49.0	46.5
- Potatoes	49.6	49.4	51.6
- Vegetables	41.5	48.6	41.8
Feed Grains	28.0	35.4	N.A.

Source: Coup d'oeil sur l'agro-alimentaire au Québec, 1977-1978, Quebec Department of Agriculture.

Trade and Distribution

Quebec's food marketing system is presently in a state of transition in which the growth of supermarket chains, in terms of share of sales, is occurring at the expense of independent, unaffiliated stores. This process has prompted a growing number of independent grocers to band together in economic alliances in order to improve the productivity of individual members. These changes are affecting farm producers, and particularly food processing industries, as well as changing retail trade in a number of ways. Many small and medium-sized firms in Quebec are often in a precarious position on both wholesale and retail markets because of trade practices which put them at a disadvantage (restrictive purchasing practices, volume discounts, quality standards for supply guarantees).

Beyond these structural changes, the retail food trade in Quebec is faced with changing consumer tastes and attitudes. These changes are felt further up the line as well, at the processor and producer levels. At the consumer end, growth in personal income, the decrease in the size of households and the

higher participation rate of women on the job market have brought about other changes such as:

- the rise in the relative share of total sales in the food sector for the hotels-restaurants-institutions subsector;
- the very rapid growth of fast food chains: the small or medium-sized Quebec firm is handicapped in competing with large-scale Canadian and American chains;
- the rapid increase in the consumption of prepared and frozen foods at home. This growth has benefited mainly the supermarket chains.

In terms of innovation, rapid changes have occurred or are about to occur in both the wholesale and retail trades, and are bringing with them other innovations in the processing sector (new products, new production, handling and processing methods, and new packaging and transportation techniques). In this regard, many Quebec producers are poorly equipped to adapt and innovate.

If Quebec's potential in this area is to be better utilized, the following broad directions, and efforts in specific fields, are suggested:

- at the primary level (farming): develop and diversify production; accelerate replacement of imports (fresh vegetables, beef); develop agricultural land (by development of waterways, underground drainage on the Montreal plain, recovery of alluvial land on the north shore of Lac Saint-Pierre); ensure reliability of supplies; increase grain production for animal feed; increase research and development efforts on new crops and new production methods (forage, grain and oilseed crops; traditional and hydroponic greenhouse growing; modern greenhouse equipment).
- at the secondary level (processing and preparation): improve the industrial structure (assistance to small and medium-sized businesses) and increase profitability and competitiveness; explore new markets for specific products (yogurt, whey, specialty cheeses, delicatessen products and so on); improve product quality and marketing; direct research to specific areas (pork-packing techniques, poultry processing, freezing and dehydrating processes for fruits and vegetables).

4.2.2 Mining

Despite the fact that the mining sector has a relatively small share of Quebec's GDP (1.6 per cent in 1977), it is an important part of the province's development strategy. In view of the growing concern on the part of different levels of government for more processing of raw materials in the province before they are shipped abroad, and new opportunities along these lines resulting from the latest GATT agreement, the future of the mining sector can be viewed with some optimism.

After experiencing a period of sharp slowdown between 1973 and 1977, mainly due to the price slump for products mined in Quebec, the Quebec mining industry picked up again at the beginning of 1978, with the rise in the price of gold, recovery of copper prices and devaluation of the Canadian dollar. These events clearly indicate the heavy dependency of the mining sector on the international economic situation, and emphasize the need for Quebec to establish exploitation methods to produce at competitive prices.

Quebec is relatively rich in mineral resources. The most important in terms of total value of output in 1977 are asbestos (26 per cent), iron ore (19.4 per cent) and copper and zinc (14.8 per cent). Quebec produces a total of 14 metals and 10 non-metallic minerals, in addition to a whole range of mined products used in manufacturing building materials. Quebec, with asbestos, possesses important non-metallic mineral reserves, but it is far behind Ontario in metallic mineral resources, mainly because of Ontario's nickel reserves.

Development of Quebec's mining potential will require intensification of exploration activities. While expenditures in this area have been increasing steadily in recent years, an additional effort is needed, particularly in exploration for non-ferrous metals like zinc and copper, of which present mining operations output is inadequate to supply the province's processing capacity. The increasing remoteness of mineral deposits, and the rapidly rising costs of extracting these deposits, tend to make development of this sector increasingly expensive. Major investments will have to be made in the construction of access roads and in research to improve methods for mining poorer deposits or those more complex in make-up. Although development in Quebec's mining industry is faced with all these constraints, its potential is considerable.

Asbestos

The value of Quebec's asbestos output in 1977 exceeded \$430 million, making Quebec the second largest producer of asbestos in the world, after the USSR.

Quebec enjoys a near monopoly of the asbestos market in the western world. It has more than 90 per cent of the American market for asbestos fibres and nearly 50 per cent of imports into the EEC. This is not a short-term situation, as Quebec has 90 per cent of the known and accessible reserves in Canada and 36 per cent of world reserves. Quebec, in fact, has the largest reserves of asbestos in the world.

In spite of this favoured position as to reserves, less than 4 per cent of the asbestos fibre extracted in Quebec is processed in the province. Asbestos processing employs only 1 600 workers in Quebec, compared to 1 800 in the rest of the country, even though Quebec extracts 80 per cent of the asbestos fibre in Canada. Asbestos is presently known to be used in at least 3 000 manufactured products; 70 per cent of the fibre is used in asbestos- and cement-based products and hence is tied to growth in the construction industry. Asbestos is also being used, in varying proportions, in the fabrication of wide variety of industrial and consumer products, mainly friction materials.

It must be noted that the possible health risk associated with the use of asbestos is a growing concern for most major users. This problem could accelerate the development of product substitution.

Furthermore, among the manufactured products that absorb 70 per cent of the fibre produced are asbestos-cement-based products, which offer little in the way of export potential. Most of these products are manufactured locally, near consumer markets, from imported fibre. The growth of this sub-sector is, therefore, almost exclusively dependent on the development of the domestic market.

Considering Quebec's relatively advantageous position on the asbestos market, and the low rate of domestic processing the Quebec government is pursuing a policy that implies: nationalization of an important mining company, the creation of the Société nationale de l'amiante (SNA) to establish processing plants in Quebec, an obligation to mining companies to negotiate on an investment program to process fibres in Quebec, and the creation of a research centre to develop new asbestos products that could be manufactured in Quebec. The ultimate objective of the provincial government is to process, in Quebec, 20 per cent of the fibre extracted there. This constitutes a very important step in the Quebec government's program of economic development stimulation. Already SNA, in cooperation with the private

sector, has set up an asbestos-pape plant in Trois Rivieres, as well as a plant to recover magnesium from waste asbestos at Thetford Mines.

Despite the current constraints to the growth of this sector, a certain optimism is justified about its potential in light of the intensification of research in this area to discover new markets for this product.

Iron Ore

Second in size to asbestos in output value (\$325 million in 1977) is iron ore, another abundant resource in Quebec. Iron ore accounts for 20 per cent of Quebec's mining production, and about one-third of the iron ore mined in Canada comes from Quebec. It should be stressed, however, that only 3 per cent of the ore mined in Quebec undergoes secondary processing in the province. The creation of SIDBEC by the Quebec government was the first tangible step toward increasing the extent of iron ore processing in Quebec. The acceleration of this process does not, however, depend only on construction of a steel mill. The creation or expansion of businesses using steel, in sectors such as machinery or transportation equipment, is a prerequisite for any large-scale increase in the processing of iron ore in Quebec.

Quebec has considerable iron ore reserves. There are no less than 2.5 billion metric tons in deposits already being mined. As well, a deposit discovered several years ago west of Lac Saint-Jean contains reserves estimated at over one billion tons, with an iron content of 31.3 per cent. Development of this project, FERAL, would involve a capital investment of \$1 billion, not including the infrastructure required to link the Lac Albanel region to the Saguenay.

Copper and Zinc

Copper and zinc accounted for 9.5 per cent and 5.3 per cent respectively of the \$250-million total value of mineral output in Quebec in 1977. Quebec has between 10 and 15 per cent of Canada's copper reserves, and less than 10 per cent of its zinc reserves. Quebec's copper output exceeded one-third of Canada's total output at the beginning of the sixties; today it is less than 20 per cent. Quebec's share of Canadian zinc output fell from 33 per cent in 1966 to 10 per cent in 1977.

These non-ferrous metals form one of the rare sectors in which large-scale primary processing, and even some secondary processing, occurs in Quebec. However, reserves are being depleted and the level of output in operating mines is adequate to supply only half the capacity of processing mills. Accordingly, Quebec must get its supplies from Ontario. The major portion of this outside supply will no longer be available after 1981, when the Texas Gulf copper refinery in Timmins goes into operation.

In order to maintain and even increase the level of activity in these sectors in Quebec, two major projects are under consideration. These are the Stelco Mining project, the cost of which has been estimated at \$200 million, and the Norita Mining project, which would require an investment of about \$100 million. Completion of these two projects would guarantee a long-term supply for the Noranda smelter, however, much depends on international prices for copper and zinc as well as the final costs of establishing operations.

The depletion of deposits presently being mined has given rise to increased exploration in recent years. While this effort has led to the discovery of a number of new and promising deposits, the search must be expanded even further to ensure an uninterrupted supply to processing mills and to maintain the competitive ability of local producers on international markets.

Other Minerals

Quebec is very optimistic about such minerals as uranium, silica, salt and peat, all of which are attractive in their development potential.

Uranium is a strategic and high-value mineral. As yet, there is no uranium deposit being mined in Quebec. Exploration is well under way, however, and a number of deposits have been located. The James Bay region has become the largest uranium exploration area in the province, and the James Bay Development Corporation is an active participant. The most attractive deposit found so far is north of Lac Sakami, estimated to contain at least 10.2 million metric tons with a uranium content of 0.5 kilograms per metric ton. With the development of highway infrastructure and an increase in the price of uranium, these deposits could be mined profitably.

Important deposits of silica have recently been discovered in Charlevoix County. These could contain up to 200 million metric tons of quartz with high silicon content. Mining of one deposit, on a limited scale, has already begun, and studies are in progress under the auspices of SOQUEM to determine the commercial viability of large-scale exploitation. Planning for such a program is already under way for the next four years.

Salt deposits on the Magdalen Islands are estimated at over one billion metric tons. SOQUEM, a Quebec government corporation, expects to extract one million tons of this salt beginning in 1980. The amount mined would increase to 2.6 million metric tons by 1990. The primary market would be the Quebec market for road salt (different levels of government

in Quebec use over 1.2 million metric tons annually). Mining these deposits will require considerable investment, both to extract the salt and to ship it to processing plants which will likely be located off the islands. SOQUEM is considering the possibility of building an evaporator, around 1985, to produce household salt. In a location better supplied with electrical power than the Magdalen Islands, SOQUEM might even consider building a sodium chlorate plant. This product is in high demand in the pulp and paper industry.

The presence of salt on the Magdalen Islands could also lead to construction of a sodium carbonate plant in the Gaspé, near a local limestone deposit. Construction of the plant and a port, and setting up mining operations will ultimately require a capital investment of about \$200 million. A cement plant could also be associated with limestone mining in the Gaspé. Completion of such a project in its entirety would create 5 000 to 6 000 jobs.

Peat is becoming one of the most promising minerals in Quebec, to the extent that it is becoming economically and technologically feasible to use this fossil fuel as an energy source. Peat is found in quantity through out the province. As an experiment, Hydro-Quebec is considering building a thermal plant, in part fed by peat, on Anticosti Island. Studies would follow to explore the possibilities of transforming peat into combustible gas or into methanol, and eventually into synthetic petroleum. The process of making iron ore into pellets may also constitute an interesting prospect for peat, if the research in progress in this area proves conclusive.

4.2.3 Forestry

Quebec has about one fifth of all the forest in Canada, and 40 per cent of the area of Quebec is forested. Forestry, an industry with a long tradition in the province, has had to gradually seek out more and more remote regions to obtain commercially viable stands. Despite the fact that Quebec's forest area is the same size as Ontario's, its potential in economically accessible operations is only 75 per cent of Ontario's. The increasing isolation of intensive cutting zones is responsible in large part for the increased costs of operation.

Commercial forestry operations in Quebec have been divided into two categories: "suburban" forests in the south of the province, where harvesting operations are carried out within

a radius of about 65 kilometres of population centres of 5 000 or more, and the more northern forests. Broad action being considered to raise the quantity and quality of Quebec's forest potential will be centred massively on the suburban forests, which in the long term are likely to supply most of the processing mills. Once properly developed, these forests, which presently cover almost 128 720 square kilometres, could provide wood products at considerably reduced cost.

The high cost of forest operations in Quebec has been emphatically pointed out in a study by the Quebec government on the pulp and paper industry. Up to 50 per cent of the differential between the cost of production in Quebec pulp and paper mills and the cost in competing mills in the southern United States can be attributed to the difference in cost of the raw material. This differential is a reflection of a number of factors, such as the isolation of cutting areas in Quebec, attendant high transportation and labour costs, and slow regeneration, which make it necessary to build increasingly extensive access road networks to reach usable forest areas.

The forest products industry is a major element in Quebec's industrial structure, both because of its presence in almost every part of the province and because of its rank among economic activities. Primary forestry operations and processing account for about 4 per cent of the province's GDP, and exports of wood products represented 18 per cent of total exports from Quebec in 1976.

To encourage greater development of industries using wood products, a number of courses of action will increasingly be followed as part of the agreement on forestry development and agreements signed recently on modernization of the pulp and paper industry. Action to be taken includes:

- 1) Rationalization of woodlot allocation and better use of available species. This is essentially a matter of developing an allocation system for wood chips, shavings and sawdust, and taking part in industry efforts to make greater use of deciduous species for pulp and paper.
- 2) Development of a forest road system, which is of prime importance in gaining access to as yet untapped forest resources. This will benefit sawmills, plywood mills and pulp and paper mills. It will also facilitate the use of new, more rapid transportation methods for logs, using modern, high-load capacity machines that will result in

economies of scale. In addition to these objectives, the program will bring other benefits, including:

- reduction of inventory costs at the mill by spreading transportation of logs over a longer period (11 months);
 - increased expansion potential for sawmills and increased use of sawmill waste for pulp and paper manufacture;
 - consolidation of jobs in forests and mills.
- 3) Intensive development of forests in suburban zones. The long-term goal is to bring the supply sources closer to the mills by setting up a development program geared primarily toward reforestation.

In the long term, this program should contribute to reforesting 40 400 hectares a year in suburban forest zones. In the first year, planting of exposed root seedlings and the seeding of larger areas will enable the total replanted area to be increased from 16 160 to 24 240 hectares. Only in the third year of the program will other forms of reforestation, such as ball-of-earth seedlings, enable an increase in production from 24 240 to 28 280 hectares, and eventually to 40 400 hectares in 1983-84.

Sawmills

The sawmill industry in Quebec is fragmented. More than 1 000 sawmills sawed 14.1 million cubic metres of logs. This industry sawed about two-thirds of all the timber cut in the province, but 60 per cent of this went in various forms to the pulp and paper industry, which already monopolizes the other one-third of available production.

According to statistics from the Quebec Department of Lands and Forests, 7.9 million m³ of the 22.5 million m³ harvested in public forests went directly to the paper mills, 14.1 million m³ went to sawmills and 0.4 million m³ went for miscellaneous use. The total volume of timber harvested in Quebec is 27 million m³.

Like the rest of Canada, Quebec is not taking full advantage of the weakness of the Canadian dollar on foreign markets. In addition to technical standards, there is a lack of organization in the industry with respect to European markets.

Traditional sawmills in Quebec are outdated and too small; hence they cannot produce lumber in the desired quantities to increase their market penetration internationally.

The mills cannot reliably cut lumber to dimension, nor do they have the drying equipment needed to market dry, unwarped lumber. Small size means high production costs, and the survival of individual sawmills is constantly in doubt. It is also clear that some recently built sawmills are not of the required scale and do not have the appropriate equipment.

For this sector to recover and benefit more fully from planned improvements in supply and linkages with other industries, mergers of small sawmills must be encouraged, and optimum use made of raw materials.

Particle Board

Particle board has been growing in popularity in North America in recent years. Several variations of particle board have appeared on the market. Rapid technological advances in this area point to considerable potential for the ever-increasing number of producers in Quebec.

The market for traditional wood panels, used mainly in house construction, appears to be relatively well served by existing firms. The growth potential for industries producing MDF (medium-density fibreboard) panels looks more promising. This type of panel, thinner than traditional panels, is used in furniture and kitchen cabinets, and as wall covering. A number of mills specializing in this material have recently opened in Quebec, while others are nearly ready to make their appearance. These firms will be trying to capture a share of export markets, principally in the United States, where trade access will be easier as a result of the latest multilateral trade negotiations.

Pulp and Paper

The value-added of Canada's pulp and paper mills amounted to \$2 876.4 million in 1976, of which Quebec accounted for \$887.7 million. Employment in the mills and forests across Canada for the same year was 131 659 jobs, of which 46 116 were in Quebec.

In 1976, Quebec produced 7 million metric tons of pulp and paper, of which the majority was exported. These exports amounted to \$1.8 billion, 40 per cent of Canada's total.

The fundamental problem in the pulp and paper industry in Quebec is the decline in its competitive position on international markets, especially those of the eastern United States. Quebec's share of the American market decreased from 40 to 30 per cent between 1950 and 1976. The difference in the cost of paper produced in Quebec, and paper produced in the

southern United States (Quebec's main competitor) was \$52 per metric ton in 1977. The difference was only \$16 in 1968, but steadily increased to \$20 in 1970, then to \$45 in 1976.

This situation stems from certain structural problems: expensive raw materials, low productivity in the mills, and high delivery costs for finished products. As a result, profits have historically been low and cash flow deficit. Companies have generally been able to meet major maintenance expenses, but have been unable to invest sufficiently to modernize their plants, increase productivity, and ensure adequate protection of the environment.

In recent months, however, there has been a considerable inflow of capital into the pulp and paper industry, due partly to the excellent newsprint market and the favourable exchange rate. In order to increase the likelihood of these funds being used to put the industry back on a competitive footing, a government assistance program has been launched.

Following a systematic inventory of the industry, it emerged that newsprint machine speed-up is highly profitable. However, the other kinds of investment required are not very profitable, and the probability of their being made without government assistance is slight.

An agreement was recently signed between the federal and Quebec governments aimed at:

- 1) rationalizing the supply of wood;
- 2) consolidating existing employment and promoting the creation of new jobs, thus making the industry more competitive in international markets. This involves the modernization of existing plants with a view to reducing costs;
- 3) encouraging environmental protection and energy conservation.

Furniture

The Quebec furniture industry is highly fragmented, consisting of companies the size of which is not conducive to economies of scale or hiring of specialized management staff. It is also subject to increasingly keen competition from manufacturers in the southern United States.

Development potential for this sector is positive, but realization of this potential will require a certain number of measures to stimulate development. Quebec manufacturers are protected by a tariff barrier of 20 per cent on wood furniture and 17 per cent on other kinds of furniture, and while their wage costs are higher than those of their American counterparts, the gap is narrowing. Nevertheless these manufacturers are still subject to strong pressure from their competitors south of the border.

Freight costs are also an obstacle to the competitiveness of Quebec manufacturers. The Quebec government has moved to partially offset this obstacle by giving the Quebec Furniture Manufacturers Association a subsidy of \$250 000 to promote group shipments by members to reduce freight costs. This measure is part of a more comprehensive provincial program under which \$8 million is to be spent by March 31, 1982 to stimulate innovation and to strengthen design and marketing activities.

The various measures to promote growth in this sector should tend to encourage companies to merge or at the very least stimulate the pooling of various operations, such as shipping, supply of raw materials, and marketing. Other measures should be aimed at reorganizing the management of a number of these companies, and encouraging the hiring of qualified management personnel trained in modern techniques. Finally, action to rationalize the supply of wood to the various users should include special measures that will make it easier for manufacturers of wood furniture to obtain the species they want, of the quality and in the quantities they require.

Those sub-sectors of the industry specializing in commercial or institutional office furniture should be encouraged to maintain the significant penetration they have recently achieved of both the domestic and export markets. This subsector seems to offer the best export opportunities at present.

4.2.4 The Steel Industry

There is still too much uncertainty about the future cost of energy to make short- and medium-term projections on the outlook for world steel demand. Nevertheless, in view of the apparent recovery of the world steel market, the difficulties experienced in this sector since 1974 may gradually be resolved.

Thus, in 1978 in the United States, the steel industry was operating at a satisfactory 85 per cent capacity, in spite of a continuing high volume of imports. In Japan, the second largest steel producing area in the world, the worst of the crisis is considered over. The situation has also started to improve in Europe, where the major producers are extremely interested in the gradual application of the Davignon plan to relocate steel operations in the EEC. In Quebec, demand from the large steel processing industries has always been lacking, and this has led to sluggish and insignificant growth in the Quebec steel industry. A large proportion of Quebec's steel requirement has always been very competitively met by Canadian steel producers located outside Quebec and by foreign producers exporting their steel products to Canada through the Saint Lawrence Seaway or the ports of Quebec City and Montreal.

Until now, production in Quebec of all the steel products consumed in the province could not be economically justified. The steel mill production capacity required was at least twice the total volume of steel consumption in Quebec. The balance not consumed in Quebec would have had to have been sold outside Quebec at a huge loss, in direct competition with other Canadian or foreign producers.

Quebec has two extremely important primary resources for the development of this sector: an abundance of hydro-electric power, at a relatively low cost, and an abundance of iron ore. In addition, the province has two pellet plants in operation and another under construction. However, the abundance of iron ore in Quebec is not a key advantage for Quebec's steel industry, as the ore has a very low iron content, and the finished product from a concentrator and/or a pellet plant is among the most expensive in the world to produce.

On the manufacturing side, Quebec has a small steel company, SIDBEC, which uses very low-cost technology to convert the ore into sponge iron and steel. This technological advantage, based on the direct reduction of the ore into sponge iron in a MIDREX shaft kiln (followed by a steel refining operation in an electric furnace), could be an effective base for future expansion in primary steel production capacity in Quebec. Recently a small steel mill in the suburbs of Montreal was taken over by SIDBEC.

Quebec has no relative advantage in terms of proximity to the steel market in Ontario and the central and midwestern United States. This advantage is enjoyed by Hamilton and Sault Ste. Marie. In addition, Quebec has no metallurgical coal, a raw material essential to an integrated steel industry. In terms of energy in general, Quebec has no relative advantage in coal, natural gas or oil supplies. Because the Ontario steel companies own their own metallurgical coal mines in the United States, and are closer to western Canada's oil and gas; they have a marked competitive advantage.

Nevertheless, the present economic situation in Quebec is conducive to expansion of primary production of flat steel products (steel plate, hot and cold rolled strip steel). Some producers are currently experiencing a shortfall of several million metric tons in hot flat rolling capacity, even though their production capacity for raw steel in ingots and slabs appears to be adequate. This situation could lend itself to the setting up of a consortium to build a modern hot rolling mill in Quebec, producing hot flat rolled sheet steel directly for their customers in Quebec.

A project of this kind, producing between 2 and 4 million metric tons of steel plate, coiled strip and sheared sheet, would re-establish the balance between the primary and

secondary production systems of these Canadian steel manufacturers. It would also increase Quebec's share of primary steel processing capacity in Canada.

4.2.5 Machinery

The Canadian machinery industry is regionally concentrated. Approximately 85 per cent of activity in this sector is currently located in Ontario and Quebec, accounting for 64.3 and 19.5 per cent respectively of total Canadian employment.

The industry has been growing in importance in Quebec's industrial structure for some years. Between 1961 and 1978, for example, its share of value-added increased from 2.1 to 3 per cent and of employment from 2.2 to 3.3 per cent. The industry in Quebec has more or less maintained its position relative to the Canadian machinery industry as a whole.

The majority of activity in this industry in Quebec, 84 per cent, is concentrated in the miscellaneous machinery and equipment sub-group. Quebec has discovered profitable areas of specialization in machinery for pulp and paper mills, sawmill equipment, woodworking machines, forestry equipment, excavation and drilling machines, and compressors and pumps for extracting and processing ore. Although specialization is essential in this field, the Quebec machinery industry has only a small part of the Canadian market. The value of Quebec shipments accounts for less than 10 per cent of Canada's consumption of machinery, while imports into Canada represent almost 62 per cent of Canadian consumption.

Two other sub-groups of the industry (farm implements and office and commercial machines) are in relative decline. On the other hand, the commercial refrigeration and air conditioning equipment industry has significant potential. There are also opportunities in the field of pollution abatement equipment, notably because of anticipated expenditures in the pulp and paper industry.

In Quebec, many machinery manufacturers are small and medium-sized businesses with limited ability to invest in research and development. They are also finding it very difficult to compete with companies in Europe and the United States as regards new technology. The furniture, textile and clothing industries, which are very important in Quebec, have to buy their equipment abroad, essentially for reasons of technology.

4.2.6 Transportation Equipment

The transportation equipment industry in Quebec offers real potential for future development. Of all Canadian provinces, Quebec has the most diversified base in this sector, achieving a leading position in certain industries such as aircraft production and urban mass transit equipment.

Rail and Subway Equipment

Quebec has entered this industry through MLW-Bombardier, which has plants in Montreal, Valcourt and La Pocatière. This company has already received an order from Via Rail for 22 locomotives and 50 coaches to be delivered during 1981 and 1982. However, once the last subway cars for the Montreal Metro have been delivered, MLW-Bombardier will have to convert its facilities at La Pocatière or obtain a similar contract, to avoid lay-offs. Although the company is also facing heavy protectionist pressure in the United States, it has nevertheless succeeded in penetrating the world market with the help of the EDC (Export Development Corporation) and CIDA. The modernization of MLW-Bombardier's existing facilities would be a logical follow-up to its progress in world markets, and would open new avenues for trade. The modernization and incorporation of suburban commuter trains into Montreal's urban transit system (MUCTC) should also provide Quebec manufacturers with new outlets. Negotiations are currently in progress between Transport Canada and the Quebec government.

The shortage of freight cars for transporting grain should also lead to further orders from the Canadian Wheat Board for special grain cars built in Quebec. Marine Industries of Sorel has already received an order for cars of this kind.

Shipyards

A series of events which occurred in the mid-seventies led to a serious crisis in the maritime freight and shipbuilding industries. The increases in the price of oil decreed by the OPEC countries beginning in 1973 and 1974, the worldwide economic recession which followed, and the excessive orders for new ships (particularly oil tankers) which were placed during the 1973 trade boom in the maritime freight industry, all contributed to this crisis.

The following data illustrate the scope of the problem. The total volume of cargo shipped fell by 8 per cent in 1975, the first notable decline in maritime freight since the Second World War. The situation was compounded by a 10 per cent increase in the world shipping tonnage available in 1975, an increase unprecedented since the war. In the most seriously affected sector, that of oil transportation, the surplus tonnage at the end of 1975 was estimated at 116 million metric tons dead weight capacity. The decline in activity in world shipyards in 1976 was the first downturn in business since 1961. Whenever new ships were needed, fierce competition among shipbuilders resulted in exceptionally low prices. Quebec was heavily affected by this slump and its two major shipyards, Davie of Lauzon and Marine of Sorel found themselves with empty order books.

These two Quebec shipbuilders have begun to diversify their production. Bill 108, passed by the Quebec National Assembly in December 1978, provides for, in the medium term, the phasing out of the naval division of Marine Industries of Sorel, and the gradual redeployment of the 1800 workers into other divisions. The Davie Company of Lauzon has interesting contracts for manufacturing off-shore drilling platforms. In addition to constructing ferryboats for the Quebec government, Marine Industries of Sorel has a full order book for its hydro-electric division, while its coach-building division is completing several orders from Canada and the United States.

The extension by the federal Department of Industry, Trade and Commerce of its shipbuilding assistance program until December 1979 should enable these shipyards to obtain new orders. They may also obtain contracts as a result of the call for tenders for the construction of Canadian military vessels. The extension of the Canadian fishing zone to 200 miles may also give rise to the construction of a number of fishing vessels in Quebec.

Although the latest federal program of assistance to Canadian shipyards does not provide for any expenditures to improve or extend facilities in Quebec, some of the measures announced may contribute to maintaining the level of activity in these yards. Among these are the government's accelerated program to acquire multipurpose ships, and measures designed to stimulate innovation and productivity.

Automobile Industry

The automobile industry is presently going through a period of unprecedented change. As a result of government regulations with respect to air pollution, passenger safety, and especially energy conservation, the industry is having to rethink the design and manufacture of the automobile to meet the improved standards within specified deadlines.

There is, in fact, a technological revolution, in which conventional materials are fast being replaced by lighter but no less resistant ones, such as aluminum or graphite-reinforced plastic. There are also improvements in the efficiency of the internal combustion engine, through the replacement of traditional electrical equipment by electronic equipment. Research is also going on into other sources of energy to replace gasoline, from diesel fuel to electric energy.

In Canada, in 1976, Ontario accounted for about 89 per cent of manufacturing shipments for motor vehicles and 98 per cent of shipments for automotive parts. Quebec, however, accounted for only 0.7 and 5.9 per cent respectively. There are two manufacturing plants in Quebec, General Motors in Sainte-Thérèse for cars, and in Saint-Eustache for city buses for the Canadian market. Truck assembly in Quebec is limited to Kenworth in Sainte-Thérèse. In addition, Marathon of Montreal, with financial assistance from Transport Canada, is experimenting with electric cars.

The industry in Quebec could develop along several lines. Incentives to an automobile manufacturer or independent parts manufacturer to establish a plant in Quebec to manufacture parts or major components is the most effective way to develop the industry in the province. More specifically, a casting plant for aluminum components located near an aluminum works could benefit from the considerable savings involved in delivering smelted metal to the plant.

Another way of giving long-term stimulus to the industry in Quebec would be the development of an electric passenger vehicle. Quebec has a solid manufacturing base in storage batteries. It also has enormous resources in electricity and is actively involved in research in this field.

In addition, some automotive parts or accessories manufacturers could expand their activities in current markets and explore new ones. The total market for parts and accessories in Canada in 1975 amounted to \$6.6 billion, almost 75 per cent of which was in imports.

The total value of shipments of parts and accessories from Canadian manufacturers amounted to \$3.9 billion in 1975. Some 60 per cent of these shipments were made by firms whose main activity was manufacturing automotive parts and accessories. Quebec firms could therefore be expected to increase their market through import substitution.

Aerospace Industry

Canadair, which employs almost 6 000 people in Quebec has had good success with its Challenger executive jet. Faster, with a longer range and lower fuel consumption than its competitors, the Challenger was developed in less than two years. Along with the Challenger, Canadair will continue to produce the CL-215, an aircraft specifically designed to fight forest fires. The CL-215 has an international market. The company is also building reconnaissance drones for NATO, and has just won a contract from Boeing to build part of the fuselage of the 767.

Pratt and Whitney of Longueuil expects its sales to reach \$400 million this year, an increase of 33 per cent over last year. With a production output of 180 aircraft engines per month, the company will employ 6 000 people in 1979.

The federal government will soon decide who is to build its new fighter aircraft. Two American companies are vying for this contract worth \$1.5 billion. Economic benefits of at least \$500 million are expected for the Quebec aeronautics industry.

Despite the full order books of the two largest manufacturers in Quebec, it should be noted that there is a serious shortage in the industry of engineers, technicians, and skilled workers. This situation has already caused Pratt and Whitney to move part of its research and development activities to the Toronto area.

During the lean years, subcontractors' equipment was not modernized as it should have been, because of a lack of contracts and of available investment capital for new machinery. This problem has been aggravated by developments in the design of new aircraft, which contain an ever-increasing proportion of fully-machined structural parts requiring the use of large-scale, multiple-spindle and numerically controlled machine tools.

4.2.7 Large Industrial Consumers of Electrical Power

Electricity has always been available in Quebec at a comparatively low cost, a considerable advantage to a large number of industries and an important factor in their decisions as to where to locate. Quebec will continue to possess this advantage for several years, and used wisely, it cannot fail to have a significant impact on the restructuring of the province's industry.

The advantage is twofold. First, supply increases in line with demand and second, costs are competitive.

Quebec should attempt to attract high-technology growth industries which use or will use processes which are either large consumers of electricity or are electricity-intensive. An important factor in the growth and promotion of electricity is the increasing effort being made by industrial research scientists to develop ever more competitive manufacturing processes with emphasis on the technical efficiency and low cost of this form of energy.

Pulp and paper, electrometallurgy, electrochemistry and non-metallic products are the sectors with electricity-intensive or large consumer (in kwh) industries. Not only are these industries electricity-intensive, they are also fairly sensitive to price differences which affect production costs. Moreover, these industries as a whole account for more than 85 per cent of total electricity consumption in the manufacturing sector.

While availability of power supplies is an important factor in the location decisions of most of the industries mentioned, other factors such as the availability of raw materials and skilled labour are also taken into consideration. Thus, it would seem that the growth in Quebec of these industries depends on the combination of these three factors.

These industries offer some interesting possibilities regarding both economic development and technical feasibility. Some examples are:

- newsprint;
- metal alloys (zinc, copper, aluminum and so on);
- industrial chemistry, synthetic fibres and plastics;
- abrasives (grindstones, abrasive papers and so on).

Aluminum Industry

The Quebec aluminum industry accounts for three-quarters of Canadian output. The industry owes its size to the abundance of hydro-electric power available in Quebec and contributes significantly to regional development particularly in the Saguenay-Lac-Saint-Jean area. Moreover, scarcities are beginning to develop in the aluminum market.

However, only a small proportion of the crude aluminum produced in Quebec is processed there and the semi-finished product sector accounts for only 35 per cent of the Canadian value-added, compared with Ontario's 58 per cent.

Quebec still has some possibilities for development in the aluminum industry, notably the establishment of a smelter for automobile parts. Another possibility is the construction of a rolling-mill, which might be of interest to small and medium-sized companies wishing to manufacture finished products. More and more new markets are also opening up for alloys of aluminum.

4.2.8 Petrochemicals

Petrochemicals, which is a high-technology industry, has been experiencing some stagnation in recent years. A number of investors have not taken advantage of the opportunities which have presented themselves, and the output growth rate between 1965 and 1974 was equal to barely half of the national consumption. The sector's balance of trade figures, which used to give little cause for concern, are now showing a deficit of more than \$500 million a year.

However, in view of the investment of more than \$2 billion in new facilities, it is expected that production will almost catch up with consumption by 1980, and that the trade deficit will be reduced to approximately \$100 million. Consumption is growing at an annual rate of approximately 7 per cent and will probably total \$4 billion a year by the end of the 1980s.

Because of the interrelatedness and size of the various plants involved, petrochemical facilities are usually built as large complexes. Economies of scale are therefore possible in the infrastructure and piping needed to transport feedstocks and finished products. The first Canadian complex on a world scale has just come on-stream in Sarnia. Some construction is under way in Alberta and the next developments should take place in the Montreal region.

Production costs depend on the size of plant. Between the mid-1950s and the early 1970s, plants built on a world scale were much larger. For example, production at a standard ethylene plant built on a world scale has increased from between 91 and 135 million kilograms to between 453 and 544 million kilograms a year. The effect of this has been to cut production costs by half. Generally speaking however, greatly increased construction and feedstock costs have put a halt to any further growth in the size of petrochemical plants.

Quebec was the birthplace of the Canadian chemical industry. In the 1950s when the industry moved over to petrochemicals, it adapted accordingly. However, it has remained modest in size and has never developed into an industry on a world scale. Quebec has only one ethylene plant, and it is only half the size of a world-scale plant.

The details of some future projects for the Quebec petrochemical industry are now available. The largest one is that of the Gulf-Union Carbide-SGF (Société générale de financement) consortium, Petromont, for the construction of an ethylene plant with an annual production capacity of more than 453 million kilograms. However, the project is only in the design stage.

The petrochemical industry is highly capital intensive. In 1975, total gross investment in Canada was estimated at approximately \$200 000 per employee, four times the average for the entire manufacturing sector. In past years, productivity measured in terms of value-added per employee has been twice the average for the manufacturing sector.

4.2.9 Electrical Products and Electronic Equipment

The electrical products and electronic equipment industry is both varied and complex and its problems differ from product to product and market to market. Products can be divided into parts connected with the use of electricity (wire and cable, batteries, transformers, industrial machinery or motors, household appliances) and electronic components

(telecommunication equipment, computers and calculators, radios and televisions). The second category calls for state-of-the-art technology, highly qualified personnel, and an ability to adapt in order to keep up with the rapid progress in this sector.

As for markets, products may be divided into those used by consumers (household appliances, radios and televisions, record players), trade and industry (industrial machinery, computers, machines for offices and stores), and private or public service industries (power generation and distribution, telephone companies, telecommunications, broadcasting and data processing).

Generally speaking, the electrical products and electronic equipment industry has been one of the province's most dynamic in the last decade. The value of shipments has increased by more than 9 per cent a year since 1966. However, employment has been dropping by about 1.8 per cent a year. The industry has been growing slightly less rapidly than in the country as a whole, and much less rapidly than in Ontario. Thus, in this area, Quebec accounted for about 24 per cent of Canadian value-added in 1976 while Ontario's share was more than 70 per cent.

Since 1971, investment in Quebec has been expanding by 1.7 per cent a year compared with 3.9 per cent for Ontario and 3.6 per cent for Canada as a whole. In 1978, the industry invested only \$34.1 million, the worst performance since 1972.

However, it should be noted that Quebec's productivity is better than Ontario's. In 1978, it was 9.6 per cent higher. This performance is due mainly to the telecommunications equipment and electrical cable and wiring sectors. Unfortunately, the relative importance of these two very productive sectors in Canadian output has diminished, which in turn has affected Quebec's overall position in national productivity.

One market that can still be tapped is the manufacture of own-name products for a number of large chain stores. Some Quebec companies, such as CAMCO and Bélanger-Tappan, continue to take advantage of this market for large household appliances.

Prospects for growth in such areas as electrical wiring and cables must be looked at in terms of the situation in the electrical power sector, which for several years has been showing remarkable vitality in Quebec. The increase in the use of aluminum cables should give the aluminum industry an additional market.

As for the vast and complex area of micro-electronics and computer hardware, there are a number of companies in Quebec which manufacture products such as word-processor-type visual-display units and other firms which design specialized systems for mini-computers. Although they should not abandon such operations just because access to the market is limited, Quebec manufacturers should continue to specialize in peripheral equipment.

There are tremendous market prospects for both Canada and Quebec in the area of telecommunications, particularly satellite telecommunications. These prospects will be improved by the new federal policy on the expansion of the Canadian electronics industry.

4.2.10 Industrial Research

Industrial research, an advanced-technology area in the tertiary sector, is an essential element in, and the driving force behind, the technological changes associated with innovation. When directly connected to a development centre such as Montreal, industrial research heightens the centre's influence on its hinterland. In this sense, there is an insoluble link between industrial research and technological, industrial and economic growth.

For several years, Quebec has been lagging far behind Ontario in industrial research. Research is concentrated more heavily on some manufacturing industries than on others. A relatively few such activities account for 65 per cent of research and development expenditure: transport equipment and machinery, 25 per cent; chemical products, 20 per cent; and electrical appliances and electronic equipment, 20 per cent. Thus the economic slowdown in Quebec and, in particular, the decline of Montreal compared with Toronto, are not wholly unrelated to the lack of industrial research in Quebec.

Moreover, a large number (about 50 per cent) of industrial research projects are carried out by foreign-owned companies, which means that Quebec is deprived of a considerable proportion of the economic benefits of such research. Quebec's industrial structure is largely made up of small and medium-sized companies. Since these are not the types of undertaking most heavily involved in scientific research, they are forced into a degree of dependence on foreign technology. None of these circumstances is likely to lead to any improvement in Quebec's industrial structure.

Finally, Quebec companies have to contend with the handicaps created by the existence of two information and communication networks -- Anglophone and Francophone. Because most small and medium-sized companies in Quebec are Francophone, they find it difficult to take advantage of the Anglophone information network of large companies. This linguistic divide also limits personnel recruitment possibilities.

It would seem essential, therefore, to promote industrial and scientific research in Quebec in order to speed up economic development. There are two complementary methods for doing this:

- a) To encourage scientific and industrial research in the private sector by setting up a "scientific park" in Montreal. This would act as a catalyst, stimulating exchange of ideas in industrial and technical research circles and promoting the creation of network of economic agents (inventors, research scientists, designers, manufacturers, market analysts, public relations and advertising firms, government agencies, and so on), interacting with each other on research and development matters.

Not only would setting up such a scientific park give Montreal the opportunity to make the most of its role as a development centre, but it would also allow it to maintain the international image created by its strategic location and existing infrastructure. Montreal and the surrounding region can already count on several physical research facilities and/or sites which could be developed and incorporated into a park.

- b) To examine the possibility of encouraging scientific industrial research centres to set up mainly in the Montreal region, and in other parts of Quebec when the research activity in question is connected with a facility which is being established in a region.

4.3 Regional Development Opportunities

The purpose of this section is to describe the main opportunities for regional development. Obviously it will not go into the possibilities dealt with in the preceding section just to put them in a regional context. Rather, the intention is to show the possibilities that exist in each region because of what it has to offer. Consequently, even though most of the development opportunities will likely take concrete form in the Montreal region, because of its importance to Quebec as a whole, it is not the intention to look at them again from a regional point of view. This part of the paper will focus on the development potential which, though sectoral in nature, is peculiar to a specific region.

4.3.1 Montreal

Though there has been a slowdown in growth, the Montreal region still plays an important role in Quebec's economy, particularly in manufacturing. In 1975 for example, more than 70 per cent of manufacturing shipments originated in the Montreal region, and for a number of sectors the figures were even higher (clothing, 88 per cent; metal products, 81 per cent; and transportation equipment, 87 per cent). On the other hand, the growth of the region has been due in no small part to the fact that Montreal is the driving force in the tertiary sector (mainly because of its favourable geographic location). In this respect, the Montreal region possesses undeniable advantages, and consequently has a host of development opportunities.

Mirabel International Airport and the TDM Complex

Mirabel airport was seen as opening the way to a consolidation of the role that Montreal has always played in the transport field. This objective was felt to be particularly important since Montreal was losing ground as a centre of international transportation. It was also hoped that the opening of Mirabel would enable Montreal to capture new international trade flows and stimulate the local manufacturing industry. The decision to build a new international airport for Montreal led to the idea of introducing into Canada an integrated transfer, distribution and manufacturing (TDM) system based on air freight and maximizing the advantages of intermodal

transport. The TDM concept was developed at a time when the world volume of air freight was increasing rapidly; the aim was to take advantage of this situation and to improve Canada's competitive position in international trade.

However, the TDM concept was not applied when Mirabel was opened because one of its prerequisites did not materialize as planned. Realization of the concept was in large part contingent upon a large increase in the volume of air freight, an increase which simply did not happen because of the impact of the oil crisis on air freight cost structures. Moreover, recent developments in the transportation field would appear to indicate that marine transportation, which has traditionally been more economical, will become increasingly competitive.

Although Mirabel airport has not as yet stimulated the economic growth that was hoped for, there are a number of ways of bringing about the airport's recovery, even though the volume of air freight is frequently dependent on the international situation. Mirabel possesses the facilities to handle five times the volume of freight it currently does. The need to make these facilities more profitable is apparent and special steps to substantially increase the volume of air freight at this airport should be taken.

Recent experience has shown that the existence of the airport industrial and commercial park (PICA) in the Montreal special area has not attracted any new industries. In view of the purpose of PICA and the pressing need to make it profitable, an analysis of the feasibility of intensifying efforts to attract suitable industries to the industrial park near Mirabel should be conducted. Although it may eventually be necessary to carry out studies to establish more accurately the number and type of industries likely to move into the park, opinion polls carried out at the same time as the market study of the TDM concept showed that a number of specific industries could relocate near Mirabel. These were in the electrical appliance, chemical, pharmaceutical and scientific and professional equipment sectors.

The efficiency of the transfer element of a TDM complex depends on an intermodal arrangement between air freight and the various forms of surface transportation. Studies have shown that for air freight, the most popular second component of intermodal transport is road, and not rail or sea. Consequently, it would appear that improving the road link between Montreal and Mirabel is the best way of increasing the flow of traffic between the airport and the heart of the city.

Montreal International Trade Centre

Although Montreal may have lost ground to other urban centres in Canada in recent years, it still has an international character and action should be taken to consolidate this important asset. Montreal owes its early prosperity and subsequent development as a metropolis to a favourable geographic location which enabled it to become a hub of transportation.

Because there are a large number of service companies in Montreal already, particularly ones providing international services, it would seem that the city is well equipped to support a large international trade centre. A number of international agencies in the field of transportation, as well as many provincial and federal agencies are located here. In addition to being a tourist and convention centre, Montreal is the home of several finance and trading companies, a large number of which operate internationally.

For Montreal to maintain and enhance its international role, it would be a definite asset if the city were to possess the most up-to-date facilities in the international marketplace. An international trade centre would help achieve this objective since it would improve the working conditions of those involved in international trade by making specialized services available to them. Canada's main trading partners have gradually acquired their own international trade centres with the aim of consolidating their foreign trade.

An international trade centre in Montreal would complement the facilities at Mirabel and help the Port of Montreal better fulfil its role as a centre of supply and shipping for both Montreal and the North American continent. Such a centre would also make a substantial contribution to helping small and medium-sized companies by making it easier for them to find new markets or sources of supply and by simplifying for them the intricacies of international trade exchanges. Those involved in import/export operations would benefit from a marked improvement in their working conditions and would be able to extend their scope of operations if the trade centre attracted new international companies. Finally, the existence of such a centre would induce private companies and institutions to make better and more frequent use of the public services available for facilitating international trade.

International Convention Centre

In view of the characteristics of conventions the world over, but mainly in North America, and given the market that exists for conventions in Montreal, it would seem desirable from the economic viewpoint to build a convention centre in the downtown area of the city. Between 1964 and 1973, the number of people attending conventions in Montreal increased at almost the same rate as it did in the rest of the world, in spite of the lack of specially designed facilities. There is a large market for conventions of between 1 000 and 10 000 delegates. An analysis of the facilities available in Montreal has shown that the city would be unable to cope satisfactorily with conventions of more than 2 000 people. It is this market that Montreal could tap if it had a convention centre.

Montreal's hotel facilities are more than adequate since there are about 30 hotels in the city capable of accommodating convention participants. Montreal's image and geographic location make it competitive with a number of American cities which have convention centres. A feasibility study by the Government of Quebec concluded that if Montreal had a convention centre, it could rival Los Angeles and New Orleans by attracting an annual average of 26 major events and 12 conventions of fewer than 2 000 participants. Accordingly, the number of delegates every year would reach about 242 000, resulting in a total of a little over one million delegate-days. Since a convention participant spends more than the average tourist, a convention centre would mean important economic benefits for Montreal as a whole.

It should also be noted that the construction of the centre would provide employment for 500 workers and that 250 permanent employees would be required for its day-to-day operation.

Tourism

Quebec's cultural heritage and history, especially as found in Quebec City and Montreal, attract a great many tourists and suitable action should be taken to further develop this potential. One possibility as far as the Montreal region is concerned is a specific program of action to preserve and restore Old Montreal. Such action is a necessary complement to the recent decisions to build a convention centre and to develop the Old Port to make the whole of this historic area a tourist attraction. It is important to realize that the demolition of Old Montreal continued unchecked until as recently as 1964, when the Quebec government declared the area to be of historic importance. The area will undergo considerable change in the

near future because of the construction of a convention centre and the development of the Old Port planned by the federal government.

The projects would be located in the three nerve centres of tourist and cultural activity. The first step should be to make improvements along the Desjardins complex/Old Port axis to create a congenial physical environment for tourists and visitors drawn to the area by the convention centre. Second, the historic buildings along the Victoria Square/Old Port axis should be restored to make the area more attractive to tourists. Finally, restoration work should continue along the Champ-de-Mars/Place Jacques-Cartier axis, an area which is already a favourite haunt of tourists.

The opening of the international convention centre will lead to a considerable increase in both the transient and permanent population of Old Montreal. The purpose of the proposed action is to exploit the tourist potential of this part of the city to the maximum.

4.3.2 Quebec City

Economic growth in the Quebec City region depends to a large extent on the situation in the tertiary sector in general, and public administration and the service sector in particular. Transport, manufacturing and tourism offer the main development opportunities for the region over the next few years.

Transportation and Manufacturing

Two major projects could take shape and generate significant economic advantages for the region, especially in the manufacturing sector.

The first is the plan to bring natural gas from western Canada to Quebec and the Maritimes. The completion of this project will take 10 years and could play a large part in attracting a number of industries to the area, for example chemical plants, cement works, pulp and paper mills and clay and glass manufacturing. Supplies of natural gas from the west could eventually be supplemented by reserves from the south shore of the St. Lawrence, the Atlantic, and the Arctic, with LNG carriers being used to transport the natural gas from the latter region.

The second major project centres around further development of Quebec's port facilities. According to a recent study conducted on behalf of Interport in Quebec City,

industrial/port infrastructure could make a significant contribution to the development of the port area and thus increase the role the port plays in stimulating industrial growth in the region. There seem to be interesting possibilities for the region in connection with these improvements to the port, particularly for the agriculture and food, wood products and shipbuilding industries.

The region's economy could derive considerable economic benefit from the development of the deepwater port at Gros-Cacouna. The impact of the project will be more than regional since it is part of a major reorganization of transportation, intended to inject new life into port activities along the navigable portion of the St. Lawrence. Regionally speaking, this reorganization would give rise to growth in industrial activities geared to exports such as edible oils, a coke plant and a flour mill. The project would include a large-capacity grain terminal and a deep-draught wharf for handling bulk goods. These would be complemented by the construction of storage facilities.

A number of development opportunities in the agriculture and food industries could be implemented in the next few years. The existence of grain storage facilities could justify the construction of a vegetable oil plant. Frozen desserts, yogurt, maple sugar products, pork-based delicatessen foods and the production, slaughter, preparation and freezing of rabbit meat are other possibilities for the region.

In the asbestos sector, several studies and projects are under way on the use of asbestos in the manufacture of new industrial products. Processing plants could be set up in the Thetford Mines region where there are large asbestos deposits. The Quebec City region could well derive considerable benefit from projects aimed at stimulating a greater amount of asbestos processing.

Tourism

The tourism sector also has potential for growth. The plans to redevelop the urban area of Old Quebec so that it blends in with the historic atmosphere of Place Royale is under consideration by the federal, provincial and municipal governments. A project to modernize skiing facilities around Quebec City could require substantial public investment. The establishment of a tourist information centre to make visitors more aware of what the region has to offer and to encourage them to prolong their stay, is another priority.

4.3.3 Trois-Rivières

The development of the Trois-Rivières region could be based on the exploitation and processing of natural resources. The main sectors that offer interesting development possibilities of this nature are agriculture and agro-food, wood, heavy industries, energy and tourism.

Agriculture and Agro-Food

Agriculture plays an important part in the region's industrial structure because of the strength of the dairy and poultry industries. More local processing of natural milk into dairy products is a possibility. In addition, the area has some land that may be suitable for growing horticultural produce, something which is greatly lacking in Trois-Rivières. A closer examination should be made of cultivation in heated greenhouses in view of the availability of warm water from the nearby Gentilly nuclear power station. Moreover, the existence of an integrated food processing complex could stimulate growth in related sectors such as agricultural machinery; metal, cardboard and cellulose containers; and activities connected with frozen foods and the refrigeration industry.

Wood

Forestry is an important resource which shows a great deal of promise for the region. Approximately 75 per cent of the surface area is covered by productive forest. There are six pulp and paper mills. Their supplies come partly from the Haute-Mauricie and partly from northwestern Quebec and Saguenay-Lac-Saint-Jean. The forestry industry is faced with considerable difficulties since high production costs and obsolete equipment are making it much less competitive. A start has been made on modernizing the pulp and paper industry, a process which could soon gain momentum following the measures announced recently by the federal and provincial governments. However, technological improvements might well reduce the number of jobs in the industry. In addition, pulp and paper mills are having to look farther and farther afield for their supplies of wood, and reforestation work must be carried out in the Basse-Mauricie to reduce supply costs. Making more effective use of the region's forest resources through better integration of activities could also attract wood processing and related activities such as the production of particle board, embossed board, and charcoal.

Production in the furniture industry, which is located mainly in Victoriaville and Louiseville, has revived recently, due mainly to the temporary abolition of sales tax and the fall

in the value of the Canadian dollar. However, these advantages are only temporary and they conceal structural difficulties in the industry which seems to be lacking in management and marketing expertise, technology, design and hardwood supplies. There could be a promising future in the region for making upholstered and office furniture using wood, metal or plastic as materials. Demand for modular, unassembled and unpainted furniture is also on the increase. Finally, if furniture manufacturers in the region were to consolidate their purchases and shipments, production costs could be reduced considerably.

Heavy Industry

The Trois-Rivières region is an ideal location for high-technology, capital-intensive, heavy industries. A sizeable number have already set up in Plessisville, Trois-Rivières, Bécancour, Cap-de-la-Madeleine and Shawinigan. Machinery, electronic equipment, chemicals, primary metal processing and energy generation are the best hope in the medium term for achieving an industrial restructuring of the regions's economy. Moreover, the region already has the infrastructure necessary for large industries of this kind. An increase in inter-industry trade could make a considerable contribution to the vitality of industries already located in the region and thus increase their beneficial impact on the region's economy as a whole.

Tourism

The tourist infrastructure in the region has been improved in recent years due mainly to Mauricie National Park, which is a major attraction. In addition, a number of annual events are held in the St. Maurice region, which make it more and more attractive to tourists, particularly for outdoor activities. However, action taken in recent years should be followed up by improving the tourist infrastructure, particularly hotels and restaurants, and by better coordinating leisure and tourist activities.

4.3.4 Eastern Townships

The Eastern Townships have a decided development disadvantage. They are some distance from the province's main markets, ports and airports; have an industrial structure that is almost wholly undiversified; and lack natural resources. Their prospects for economic growth lie mainly with a small number of manufacturing industries, asbestos exploration and exploitation, tourism and research and development.

Manufacturing Industries

Industrial development in the Eastern Townships will be based on better use of the region's natural resources (asbestos and forestry) on the quality of the local labour force, and on the addition of new industries to the region's existing industrial base.

Thus, an increase in the processing of asbestos is probably the Eastern Townships' best hope for industrial development. At the moment, the asbestos sector employs more than 2 500 workers in the region. Canadian Johns-Manville's Jeffrey mine could continue to operate for another fifty years. Even though some workable deposits were discovered in northern Quebec recently, prospects for the discovery and exploitation of new deposits in the Eastern Townships region are still very promising. In this connection, Quebec's new policy on asbestos, which is based on a greater amount of processing in the province, could have a considerable effect on the region. Since the Eastern Townships have textile and pulp and paper mills, the best prospects probably lie in the manufacture of textiles and asbestos papers.

In spite of the difficulties that the machinery industry, which is concentrated in Sherbrooke, has had to face, it too could offer interesting opportunities for development, particularly for companies manufacturing equipment for pulp and paper mills that are now in the process of modernizing. There has already been sizeable investment in this sector.

Obsolete equipment means that there will be a pressing need in the very near future for pulp and paper mills to modernize or convert their facilities. This modernization, in the long term, will help to ensure the survival of single-industry towns such as Windsor and East Angus. It should be noted that out-of-date equipment is not the sole reason for the lack of profit shown by the Eastern Townships' pulp and paper mills. The gradual depletion of forest resources in the region and the fact that a large part of the resources are in private hands make it difficult and expensive for local mills to find supplies. Increasingly, firms are looking to northwestern Quebec and the United States for their raw materials.

The textile, clothing and footwear industries employ nearly 40 per cent of the total manufacturing labour force. Efforts must centre on modernization and restructuring rather than on expansion. Hence, it can be expected that a significant proportion of the labour force will have to seek employment elsewhere. The best prospects seem to be in the appliances, electronic equipment, and medical and scientific instruments, and asbestos processing industries.

Tourism

The Eastern Townships region is possibly the region in Quebec with the greatest tourism and recreation potential. Over the last 20 years, great strides have been made in developing the necessary infrastructure, particularly for outdoor activities. With four lakes (Memphremagog, Massawippi, Magog and Brompton) and Mount Orford in the immediate vicinity, the Magog-Orford area has the greatest potential for outdoor activities. To the east lies another area of lakes, Aylmer, St-François and Mégantic, and Mont Mégantic. The Quebec Department of Tourism, Fish and Game announced recently that it intended to make the Magog-Orford area an integrated centre of tourist development. With two universities and a number of hotels and restaurants, Sherbrooke has adequate facilities for hosting international conferences and conventions.

Research and Development

Research and development in the region is concentrated mainly at the University of Sherbrooke, asbestos and energy being the areas of interest. A centre of permanent research into the industrial use of asbestos has been set up with the support of the Association des mines d'amiante. Research has also been carried out into the use of peat and second-grade wood as energy sources.

4.3.5 Outaouais

The economic difficulties which the Outaouais region has recently experienced have shown the vulnerability of the region's economy, the growth of which depends to a large extent on the tertiary sector. Of all the regions, the Outaouais is the one in which the tertiary sector is the most dominant.

Moreover, the region's economy is almost totally lacking diversification. As shown by the increase in unemployment caused by the completion of certain construction projects and the decline in the growth of the Public Service, the area's economy is highly dependent on external forces.

The manufacturing sector in the region is very highly specialized. It depends on wood processing related activities (pulp and paper, wood industry, furniture) which account for more than two-thirds of total manufacturing employment. The Outaouais has the most specialized manufacturing structure of all the regions, closely resembling resource regions such as Northwest Quebec and the North Shore.

Wood Industry

Nevertheless, the region is not wholly lacking in development opportunities and specific government action could help to make the most of these. The Outaouais has excellent forestry potential in terms of both quantity and species variety. A comparison with other forestry regions in Quebec shows the Outaouais' importance in this respect, since it possesses approximately 22 per cent of the best forest land in the province. The abundance of the region's forestry resources is a valuable asset and the variety of species, all of them available in adequate amounts, is one more advantage which the Outaouais has over the other regions.

In spite of the proximity of the fourth largest market in Canada and the amounts of hardwood available, the region's wood processing industry is comparatively undeveloped. The Outaouais is primarily an exporter, sending its forestry resources to be processed elsewhere in Quebec and in eastern Ontario. However, the region has all the prerequisites (resources, labour and market) for setting up a hardwood manufacturing complex, particularly in the areas of office furniture, doors and frames and the protective treatment of wood.

Agro-Food Industry

Recent events in the region offer new development potential. Industrialization of dairy farms has led to increased interest in beef cattle. Several dairy producers have switched over to this type of farming. Of the 3 200 farms

in the region, about 700 are now raising only beef cattle. This is particularly evident in the counties of Gatineau and Pontiac, which account for 50 per cent of the region's beef farms. Since the Outaouais has access to the Ottawa and Montreal markets and already has a sizeable nucleus of beef farms, it now seems possible to affirm the region as a major cattle rearing and finishing area.

Greater production of beef cattle in the region must however be accompanied by a restructuring of the marketing system which seems to be extremely inefficient in its present form, being in the hands of small dealers who travel from farm to farm to make their purchases. Consequently, there is a need for an integrated marketing network to better meet beef farmers' requirements, including a public market, a number of auction sales, and construction of a regional slaughter house.

Tourism Development

The Outaouais is an area of high tourism potential and suitable action should be taken to develop it. It has rivers, wild life, picturesque farmland and a more temperate climate than most other regions in the province. It will also derive benefit from its proximity to Canada's capital, which attracts a great many Canadian and foreign visitors. It has a potential market of approximately 700 000 in the immediate vicinity, and of nearly 3 million within a radius of 100 miles (Montreal and eastern Ontario). However, because facilities are somewhat lacking and are scattered throughout the Outaouais, the region has been unable to take full advantage of this favourable situation and cannot compete with neighbouring regions. Furthermore, it has not yet established any real integrated tourist centres.

Suitable action for developing this tourism potential needs to be defined. First, to complement the region's physical assets, a wildlife park could be created in the Meech River Valley as an important tourist attraction. Another step could be to establish a major tourist centre in the Wakefield area, which is close to the ski centres and the proposed wildlife park. The centre would stay open year-round and offer first-class hotels and restaurants and the necessary facilities to encourage visitors to stay longer. The banks of the Ottawa and Gatineau rivers could also be developed for tourists. Finally, a program of financial assistance is needed to substantially add to and improve accommodation in the Outaouais region.

Municipal Infrastructure

The region could derive considerable benefit from the creation of municipal infrastructure designed to make it more suitable for economic development. First, the work on renovating downtown Hull should continue with the construction of a mall on Promenade du Portage and second, the necessary changes should be introduced in the town of Gatineau so that its commercial sector can grow in a more orderly fashion.

4.3.6 Lower St. Lawrence-Gaspé

Economic activity in this region is still closely associated with the exploitation and processing of natural resources, particularly in the areas of fishing, forestry and mining. The prospects for eastern Quebec depend largely on the general economic situation in North America and on the realization of timely projects in the region. Local entrepreneurs and small and medium-sized companies will play a decisive role in the realization of the region's development prospects.

Fisheries and Marine Resources

The fisheries sector plays a vital role in the region since approximately 90 per cent of the province's commercial fishing operations are concentrated there. However, the sector has had to contend with a great many difficulties in recent years because of overfishing of the most commercial species. Better resource management and the adoption of the 200-mile limit for Canadian territorial waters are the two main reasons for the gradual increase in the size of catches over the last two years. In the medium term, sea fishing in eastern Quebec will be greatly affected by attempts to concentrate processing infrastructure and companies in fishing centres. Growth will also depend on the renewal of the fishing fleet.

The relocation of processing establishments in the main industrial parks should lead to a modernization of plants with obsolete equipment. The renewal of the fishing fleet, which will require an investment of \$70 million between now and 1983, will enable the region to adapt to technological changes, as well as changes in fishing conditions and methods, and to derive greater benefit from the new 200-mile limit by stimulating the entrepreneurship of Gaspé fishermen.

The exploitation and processing of seaweed for pharmaceutical or nutritional purposes is another important development opportunity. If it were to prove profitable, region's industrial base could be diversified and a large new industrial complex created.

Forest Development

Forest activities are the mainstay of eastern Quebec's economy, since they account for almost 20 per cent of total employment in the region. Considerable changes have been introduced in recent years mainly because of the challenge posed by the modernization of production equipment and the problem of supply. The local forest industry should benefit from the progressive development program introduced by the Quebec government, which centres on the overall reallocation of public forest potential. Accompanied by measures to enable the main sawmills to adapt to technological change, this policy should lead to a substantial increase in sawmill production in the short term.

The pulp and paper industry is also faced with supply problems, and over the next few years will be using the tree trunks that are unsuitable for sawing, and waste from the region's sawmills.

Mineral Development

Prospects for the region's mining sector in the next few years lie with the exploitation of the salt deposits in the Magdalen Islands and the manufacture of carbonate of soda. The salt mines represent considerable mineral potential for the islands. The extraction of 1.5 million metric tons of salt each year would lead to a diversification of the islands' single-product economy.

Limestone reserves in the Port-Daniel and Gaspé-Nord regions and the salt reserves in the Magdalen Islands represent a considerable potential since limestone and salt are the main raw materials used to manufacture carbonate of soda, which in turn is used mainly in glass, and pulp and paper making. Preliminary studies indicate that a project to manufacture 850 000 metric tons of carbonate of soda mainly for export to the United States could be economically feasible. Such a project would require a total investment of approximately \$200 million and would create about 1 000 jobs.

Tourism

A great many tourists are attracted to eastern Quebec every year by the picturesque beauty of its villages and by the St. Lawrence. There are a number of possibilities for developing the region's potential. In particular, developing the Bic, Gaspé and Magdalen Islands provincial parks would

consolidate the Lower St. Lawrence-Gaspé as the prime area for tourists attracted by natural surroundings. The area would offer a wide range of recreational facilities while respecting conservation priorities.

Transportation Infrastructure

The rail-sea link between Matane and Baie-Comeau was the first step in the process of providing the North Shore with access to the North American rail system. Plans to build unloading bays in Port-Cartier and Sept-Iles should stimulate spatial and sectoral economic integration, bring about a reduction in supply costs for the towns on the North Shore and in raw material transport costs, and provide companies in the region with better access to North American markets.

4.3.7 Saguenay-Lac-Saint-Jean

The region's economic prospects and development opportunities will be largely determined by the effects of the national and international economic situation on natural resources. Conditions on the international mining market, the relationship between the Canadian and American dollars and market conditions for aluminum will all have a decisive effect on the region's development potential.

Forest Development

Forestry and wood processing are presently going through a period of expansion, stimulated by the devaluation of the Canadian dollar and by sizeable investment for the purposes of modernization and growth.

The next few years will signal important changes for small sawmills. Changes in the allocation of cutting permits will help companies consolidate by merging, amalgamating or closing. It is anticipated that this consolidation will lead to gains in productivity and thus in competitiveness. However, greater processing of wood products presupposes easier access to new forestry resources. This is illustrated by the establishment of Donohue's integrated complex in Saint-Félicien, which has led to a marked decrease in the size of cutting areas.

Using wood waste for industrial purposes offers the region some development potential and a number of projects in this area could take shape over the next few years.

The region's long-term economic well-being depends to a large extent on making the best possible use of the development potential that exists in this sector. A more rational management of resources, intensive silviculture work and continuous research to ensure maximum use of resources are some of the ways in which this objective could be reached.

Agriculture and the Agro-Food Industry

Consideration is being given to a horticultural project for the Lac-Saint-Jean region, the aim being to grow fresh vegetables in a series of greenhouses heated mainly by hot water from the Donohue plant in Saint-Félicien. This would reduce the region's dependence on outside sources for its supplies of fresh produce. In addition, blueberries are abundant in the region and are being processed and marketed to serve as a base for wines and aperitifs. It also seems likely that a whole range of blueberry-based foods could be produced. Finally, an underground drainage program has meant increased yields and this should open the way to greater diversification in agricultural production and a better use of the soil. More intensive rearing of beef cattle and the introduction of new crops such as feed grain for livestock can now be expected.

Mineral Development and Metal Processing

Exploiting the peat bogs of Lac-Saint-Jean for industrial purposes constitutes a major development opportunity, particularly since the industrial coke that is a by-product of peat can be marketed. Alcan could be one of the main buyers, even though locally produced peat is more expensive than peat from outside sources. It seems, however, that the price could be reduced if, with the technical assistance of the Quebec Department of Natural Resources, considerable improvements were made in the extraction process.

As for aluminum, national demand has experienced steady growth. In the United States, there will be a sharp increase in imports since domestic production capacity cannot keep pace with the increased demand for primary aluminum. This is an excellent opportunity for Canada to meet increased demand. In order to meet the demand forecast for the 1980s, Alcan has undertaken the construction of an aluminum plant at La Baie. The project, which will take four years to complete, will be carried out in three stages; the first two alone will require investments of almost \$300 million.

Tourism

The Saguenay-Lac-Saint-Jean region already has a number of facilities which could attract more tourists. In

addition, the provision of a variety of summer and winter activities at Mont Valin has a definite tourism potential.

Development Infrastructure

The improvements to the airport facilities at Chibougamau are of considerable importance since they will enable the region to better play its role as the crossroads of trade for this part of mid-northern Quebec. It will provide, among other things, greater access to the major development projects now under consideration, particularly the Lac Albanel iron deposits, an integrated forestry complex, copper, gold and asbestos mines, and the construction and maintenance of power transmission lines from James Bay. By providing communications linking the Northwest, Saguenay and the North Shore, public investment will make the Saguenay-Lac-Saint-Jean region more accessible to other major urban centres.

4.3.8 Northwest

The region's economy is based largely on the exploitation of mineral resources. This dependence has decreased in recent years because of some diversification towards forestry resources. Indeed, the latter has shown great vitality while the mining sector has been experiencing some difficulties. However, the short-term economic outlook is for recovery in the mining sector. With the rationalization that has taken place in recent years, agriculture has developed from a subsistence activity to a commercial one and there are now a number of development opportunities in the agro-food industry.

Agro-Food Industry

Local milk processing plants have been taken over by a large company, which should mean improved access to the national market for this industrial sector and the introduction of new milk-based products. Although beef cattle have been reared in the region for only the past few years, intensification of this activity will likely create new opportunities for the establishment of meat processing and packing plants which could also serve the James Bay area. Finally, greenhouse cultivation offers interesting possibilities in view of the region's abundant supplies of wood waste, which could be used to heat the greenhouses, and of the great many hours of sunshine that the region enjoys.

Mineral Development

To a large extent, it is the mining sector which has been responsible for the growth in the region's economy and it will probably expand in view of increased expenditure on

exploration, the improvement in copper prices and the gradual depletion of world stockpiles of zinc, copper and gold. Two large copper and zinc mining companies are contemplating investing approximately \$300 million to develop new deposits which would ensure supplies of copper ore at the local Noranda foundry. The steep rise in gold prices will make it worthwhile to start working old lodes again and to open new mines. The necessary capital expenditure will be large and a great many mining entrepreneurs in the region are likely to benefit.

A soil and mineral analysis centre could be of benefit to the Northwest. By analysing the mineral content of soil locally, a research centre would reduce the industry's dependence on laboratories outside Quebec.

Forest Development

Growth in the forestry sector in Abitibi-Témiscamingue has been remarkable and, judging from the prospects for the immediate future, this situation is likely to continue for the next few years. First, the embossed-board manufacturing sector is in full production and several companies in the region are contemplating expanding in order to take advantage of new opportunities that have opened up, particularly on the American market. It is planned to make use of the considerable reserves of yellow birch and poplar to manufacture embossed board. In the relatively near future, the rapid expansion in this sector should generate investments of approximately \$80 million and create nearly 1 000 jobs. The large amounts of wood waste in the region could create important development projects over the next few years, including, for example, the construction of a plant to produce high calorific content wood briquettes for use by the large companies in the region.

Finally, the forestry sector should benefit from the opening of the Témiscamingue-Maniwaki highway within the next two years, since it will provide the Témiscamingue and Pontiac regions with access to large forest reserves.

4.3.9 North Shore

The development of the North Shore depends to a large extent on the exploitation of its natural resources, which have, for a long time been the principal engine of its growth. However, development will have to be consolidated to encourage the development of related activities and to attempt to diversify the region's economic structure.

Fisheries

The fishing industry is concentrated on the lower and mid North Shore and catches consist mainly of cod, herring, salmon and scallops. The market for these species in Quebec is strong and the export market is also becoming profitable, particularly since the introduction of the 200-mile limit. However, the region does not have a large enough fleet of fishing boats of the size needed to ensure a more intensive exploitation of the potential. Expansion could take place if fishermen were to modernize their equipment and improve the marketing structure.

Mining

In terms of employment and production, mining is the most important sector in the region's economy. However, the industry revolves around only two products - iron ore and titanium.

Since there are large reserves of minerals, diversification of output would bring about greater stability in the region, especially since the greater part of mineral production goes to international markets and the prices of these metals depend on international demand.

Forestry Development

The amount of cutting in no way reflects the potential of the region's forests. In the past, sawmills have experienced considerable difficulties mainly because of the distance to their markets, and several of them have had to close. Pulp and paper mills too have had problems, and for a long time, Quebec North Shore's Baie-Comeau mill was the only one in operation in a region so rich in conifers. The lack of access roads and the shortage of manpower have also contributed to the under-utilization of wood. The wood industry cannot develop with any speed in the short term unless the accessible resources in other regions are exhausted or international demand increases at a more sustained rate.

Manufacturing

Resource processing is embryonic in the region. Indeed, the 6 000 or so jobs in the manufacturing sector is a very poor reflection of the processing potential of the region. The increase in primary processing capacity at Sidbec-Normines' Fire Lake and Port-Cartier plants has meant some consolidation, but more processing must be done where the ore is extracted. The existence of deepwater ports is bound to stimulate

development of this kind. The introduction of the rail ferry is an advantage in that it will reduce the cost of transporting semi-finished products. Additional development opportunities are mainly in the area of increased processing of mineral resources, most of which are shipped in their raw state. Finally, if the food industry were to expand, the region could gradually reduce its dependence on outside suppliers.

Transportation

The region has long been isolated from the rest of the province, and this is a serious obstacle to growth. Roads are practically non-existent except along the St. Lawrence as far as Havre-Saint-Pierre, and plane and boat are still the only means of transport available to the inhabitants of the lower North Shore.

Marine transportation has developed through sheer necessity. Canada's largest ports, Sept-Iles (2nd), Port-Cartier and Baie-Comeau, lie on the North Shore. Communication with the south shore was transformed by the introduction of the rail-ferry service between Matane and Baie-Comeau.

5. CONCLUSION

In spite of the considerable expansion experienced by the Quebec economy, and the high degree of development it has already attained, there are a number of basic structural weaknesses limiting its long-term growth potential and preventing Quebec from participating fully in the growth of the Canadian economy. Quebec's relative position has deteriorated since the mid-sixties, and all indications are that this trend will continue over the next ten years. Persistent high unemployment, weakness in income and productivity, insufficient private investment, deficiencies in the industrial structure, the relative decline of the Montreal urban area, and the existence of considerable regional disparities within the province are major problems for the Quebec economy. These problems existed at the beginning of the sixties, to be sure, but today they appear in a much different context and are more acute in a number of respects.

In the coming years Quebec will have to meet the challenge of substantially increasing its growth to achieve a higher job creation rate. The present situation, as well as economic conditions in the foreseeable future, make this a particularly difficult task. In these circumstances, the federal and provincial governments should agree on immediate, intensive efforts to encourage the recovery of the Quebec economy.

The most urgent problem for the Quebec economy is unemployment, and government initiatives should be directed toward immediate job creation and the preservation of existing jobs. However, considering the structural nature of the problems faced by the Quebec economy, it seems imperative that short-term measures be complemented by an overall strategy to boost the economy on a long-term basis, while encouraging maximum utilization of Quebec's comparative advantages.

Accordingly, it would seem desirable to give special attention to strengthening the manufacturing industry. The present situation of this industry in Quebec and the prospect of increased international competition necessitate an industrial reconversion-based strategy. The government should in particular give support to increased investment in high-growth industries such as transportation equipment, machinery, electrical equipment and chemicals. Recent GATT agreements will probably encourage greater processing of resources in the province. Efforts should be stepped up in certain sectors such as asbestos and steel products, and even aluminum. Finally, traditional industries presently facing greater competition

should be rationalized and modernized. Efforts to modernize the pulp and paper industry and to reduce the cost of supplying the raw material will enable the Quebec industry to improve its competitive position and hold its share of the market. Action should also be considered to scientifically reorganize the textile, clothing and footwear industries, which in Quebec employ a large percentage of manufacturing workers.

On a regional basis, it appears essential, without overlooking the development of other parts of the province, to give high priority to consolidating the Montreal urban area, where the growth pattern over the past twenty years has been particularly disturbing. Because of its size and the diversity of its industries, the Montreal area offers the sort of development potential that could generate a considerable chain reaction in the whole Quebec economy. Priority in this region should be given to developing the manufacturing industry and strengthening key tertiary activities such as transportation, industrial research, financial activities and tourism. Montreal should be re-established as a driving force in the development of the Quebec economy.

