



Quebec

A Dynamic and Profitable Business Environment

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Home

With its rich rural tradition and forward-looking entrepreneurship, the agri-food industry is a major contributor to Quebec's economy.

In 2005, the agri-food sector accounted for:

- 452,314 employees;
- a GDP of CDN\$14.7 billion;
- 6.6% of Quebec's GDP;
- CDN\$2.2 billion in capital investments;
- average annual growth exceeding 3.6%; and
- exportations valued at \$3.8 billion.

Québec's major bio-food exports were:

- pork and pork products: \$1 053,7 million;
- cacao, tea and coffee: \$367,8 million;
- fish and seafood: \$200,4 million;
- grain products: \$231,9 million;
- oilseeds and pulses: \$179 million;
- beverages: \$180,2 million;
- other foods and products: \$ 316,8 million;
- honey, maple and sugar: \$ 296,2 million.

The presence of several multinationals, including **Barry Callebaut**, **Danone**, **Frito-Lay**, **Kraft** and **Nestlé**, testifies to the vitality of the industry.

"Support for Frito-Lay's operations in Quebec has generated positive benefits: low operating costs, stable and competent workforce and good infrastructures. Frito-Lay is now among the largest snack food producers in Canada and this is partly due to the two plants it now has in Quebec."

— Anne-Marie Renaud, Operations Director - Eastern Canada, March 2005

Your company is growth-minded. Expand your horizons in Quebec.

April 2006

Sector Profile

A Major Industry for the Quebec Economy

Quebec's agri-food industry is significant and demonstrates remarkable strength, as evidenced by the amount of exports in 2004 (CDN\$3.7 billion).

Quebec's Bio-food Industry	
Some statistics (2005)	
Economic Activity	
GDP (CDN\$, billions)	14.7
Capital investments (CDN\$, billions)	2.19
Jobs (thousands)	453
International	
Exports (CDN\$, billions)	3.83
Imports (CDN\$, billions)	3.48

Source: Statistics Canada and Strategis - 2006.

Regional Development

- The food processing industry stands at the forefront of Quebec's manufacturing industries in terms of the number of jobs, ahead of the chemical products, transportation equipment, pulp & paper, electrical products and electronics industries.
- With extensive territorial presence, the agri-food industry has made a significant impact, contributing to the development and sustainability of Quebec's regions.
- Quebec ranks tenth among 60 American states and Canadian provinces for the number of agri-food industry jobs.

Food Processing Industries in Quebec

Some statistics (2005)

Jobs	71,996
Growth during the last 5 years (%)	1.1
In % of food processing jobs in Canada (%)	26.1
Deliveries (CDN\$, billions)	19.6
Annual growth rate since 2000 (%)	3.6
Exports (CDN\$, billions)	3.2
Annual growth rate during the last 5 years (%)	4.9
Capital investments (CDN\$, millions)	348.5

Source: Statistics Canada and Strategis, (compiled by Transformation Alimentaire Québec) - 2006

Competitive Advantages

Abundant, quality drinking water

Quebec is renowned for its significant water resources and accounts for approximately 3% of the world's fresh water. The government has adopted a water policy to ensure its protection, sustainable management and development, and to better protect public health as well as Quebec's ecosystems.

Sugar prices

The plentiful supply and affordable price of Canadian sugar constitute competitive advantages for food processing companies providing products to the North American market.

High-quality pork

The high quality of Quebec pork is recognized the world over. Quebec is the largest pork producer in Canada.

Industry-leading Companies

Agropur, Canada's largest dairy cooperative, processes more than 1.8 billion litres of milk annually. Its 21 plants employ some 3,000 people. Agropur produces the full range of dairy products: bulk cheese, fine cheeses, whey protein concentrate, fluid milk and cream, yogurt and fresh desserts.

Aliments Martel produces and distributes ready-to-eat meals including sandwiches, submarine sandwiches, pizzas, imperial rolls, pastries and more. The company has facilities in the Québec City area, in Montréal and in Gatineau, including four plants as well as distribution centres and a fleet of trucks. It serves the institutional and retail markets.

Switzerland-based **Barry Callebaut** is one of the world's oldest and largest cocoa and chocolate products manufacturers. Its plant in Saint-Hyacinthe produces chocolate for industrial customers and confectioners. Its products are used in ice cream, baked goods and as icing in confectioners' products. Cocoa byproducts are now Québec's second-biggest biofood export after pork, mainly due to the presence of Barry Callebaut.

Founded over a century ago, **Biscuits Leclerc** manufactures a wide range of products, including cookies, wafers, snack bars, muffin bars, breakfast cereal, crackers and pretzels. Its products are exported to some 15 countries, and exports make up 30% of sales. Biscuits Leclerc operates five plants: three in Québec, one in Ontario and one in the United States.

Boulangerie Gadoua - Gadoua's product line includes baked goods, breads, specialty breads and bagels. The company has its head office in La Prairie and operates three bakeries-in Napierville, Saint-Augustin-de-Desmaures and Saint-Thomas-de-Joliette-as well as 14 distribution centres.

Carrière Foods is Canada's leading processor of canned and frozen vegetables. The company also markets soups, sauces, baked beans, dry beans and other products, both on the retail market and to the restaurant industry. Carrière Foods owns four plants in Québec, three in Ontario and one in Nova Scotia.

Coca-Cola operates a plant in Trois-Rivières and another in Lachine. It also has five sales offices, in Gatineau, Granby, Jonquière, Montréal and Vanier. The company is active in manufacturing of soft drinks (Coca-Cola, Minute Maid, Schweppes, Sprite, Fanta) as well as in distribution of bottled water, juices and iced tea (Degani, Evian, Fruitopia, Nestea).

Danone Canada has been the Canadian leader in fresh dairy products since 1967. In Canada, the company produces yogurt only. Groupe Danone is No. 1 worldwide in the dairy products and conditioned- water segments, and No. 2 in the world in cookies and cereal-based snacks. Its products are marketed under various brands including Evian, Dannon, Sparkletts, Crystal Spring and Stonyfield Farm.

Delta Dailyfood Canada inc. is a maker of frozen food adapted to the customer's needs: meals for airlines, catering service and for retail industries. The company has a facility in Montréal with 325 employees.

Part of PepsiCo, Inc., **Frito-Lay Canada** is the largest manufacturer of chip snacks in the world and in Canada. Frito-Lay sells its potato chips and other snacks in more than 40 countries on five continents. In Canada, the company operates six plants, including one in Lévis, near Québec City, and one in Montréal (Pointe-Claire).

George Weston Ltd. is one of the largest food processing and distribution groups in North America. It is primarily active in the baking and dairy industries, as well as food retailing (Loblaws, Provigo). Les boulangeries Weston Québec of Longueuil employs nearly 400 people and makes fresh and frozen baked goods for the Québec and Canadian markets.

General Mills Corporation has about 1,300 employees in Canada. It markets brands in four sectors: breakfast foods, baked goods, meals and snacks (including the brands Betty Crocker, Lucky Charms, Cheerios, Pillsbury and Old El Paso). The company operates a bakery in St-Hubert, Québec, that produces bagels, muffins and pizza dough (brand manufacturer: Pillsbury).

Kraft Canada is the leading marketer of food products and services in Canada. The company sells more than 100 brands, from cheeses to beverages to pasta, cookies and more. It operates 20 plants and bakeries, along with 15 distribution centres. Almost 99% of Canadians are Kraft product consumers. Kraft employs close to 2,500 people in Québec.

Labatt Breweries (InBev S.A.) is one of Canada's oldest brewers and produces 60 different beer brands. It employs 3,800 people in its eight Canadian breweries. Labatt is part of the international group InBev, the world's leading brewer by volume. In Québec, the company operates a brewery in LaSalle, along with 36 distribution centres throughout the province.

Lassonde is active in the development, manufacture and marketing of a range of fruit and vegetable juices and drinks, as well as certain specialty food products such as canned corn, fondue bouillons and sauces, meat marinades, barbecue sauces and baked beans. In Québec, the company has juice and drink processing and packaging facilities (A. Lassonde Inc.) in Rougemont and Montréal. It also produces bouillons, baked beans, sauces and canned corn (Lassonde Specialties Inc.) in Saint-Damase, Québec. Lassonde is present on markets in Asia and North Africa via partnerships with local companies.

Maple Leaf Foods is one of the largest food processing companies in Canada. The brand first appeared more than 100 year ago. The company's operations focus on meat products (bacon products, wieners, fresh and frozen pork, poultry), bakery products (breads as well as fresh pasta and sauces) and pet food for cats and dogs.

McCain Foods has 15 processing plants in Canada. It is the largest producer of french fries in Canada and produces around a third of all fries eaten worldwide. It is active in two sectors: consumer products (potato products, pizza, desserts, beverages and vegetables, and food products for health-care and institutional establishments).

Molson Coors Brewing Company is the world's fifth-largest brewer, with combined annual volume of 48 million hectolitres. It is present in Canada, the United States, Brazil and the United Kingdom. Molson is the oldest beer label in North America and has a portfolio of more than 40 brands. Molson Canada has more than 3,000 employees and five breweries, including one in Montréal.

Multi-Marques is Québec's largest baker and the second-largest in Canada. It is primarily engaged in production and distribution of baked goods and pastries, and has over 1,700 employees in its eight bakeries located in various Québec regions. Multi-Marques markets eight different brands and is also a supplier for private brands and food wholesalers.

Nestlé is the world's largest food company. In Canada, it manufactures and distributes various food products and prepared meals, as well as snacks and beverages. It is also a food-service provider to restaurants, hospitals, airlines and recreational facilities. The company operates a concentrated-milk processing plant in Sherbrooke, Québec, a distribution office in Lachine (foodstuffs, chocolate, prepared meals) and a water distribution network, Nestlé Waters Canada (Montclair, Perrier, Vittel), in Laval.

Olymel is the Canadian leader in the slaughtering, butchering, processing and marketing of pork and poultry products. Owned by the Coopérative fédérée du Québec, the company operates 16 breeding facilities and 18 slaughtering, processing and distribution facilities. The company processes some 80 million chickens, four million turkeys and four million pigs each year. Close to a third of sales are to foreign markets.

Parmalat Canada produces milk and dairy products, fruit juices, cultured products, cheese products and table spreads. It operates plants in Montréal (310 employees), Saint-Hyacinthe (52 employees), Marieville (83 employees), Victoriaville (378 employees) and Laverlochère (59 employees). The company owns 14 other facilities in four provinces outside Québec.

Saputo is the largest dairy processor in Canada, one of the most important cheese producers in North America and the third-biggest dairy processor in Argentina. The company manufactures and markets a complete line of cheeses, fluid milk and other dairy products in addition to whey byproducts. Saputo also operates a bakery division that manufactures, distributes and markets a wide range of snack cakes and cereal bars. It is the largest snack cake manufacturer in Canada and has 46 plants in North America, including 27 in Canada.

Unilever Canada is active in the food, home and personal-care products markets. In Québec, it has a tea manufacturing facility in St-Laurent, a frozen-products plant in Lachine, an industrial soaps factory in Candiac and a production complex in Baie-d'Urfé where various food products are manufactured and processed. The company makes mayonnaise and salad dressings, and distributes oils, home care products and personal-care products.

Labour

Stable Labour Force

Quebec is recognized the world over for the stability of its labour force. For companies, the low staff turnover rate in Quebec constitutes a considerable advantage compared to the U.S., where the labour force is highly mobile.

Effective Training Network

Quebec boasts an education system that is able to supply and replenish a skilled and multi-disciplinary labour force. The province's twelve universities offer numerous programs related to commerce, marketing, logistics, business computing and administration.

Universities and colleges also offer several programs more focused on the agri-food sector.

- The Institut de technologie agroalimentaire offers several farm- and food processing-related programs. Training at the ITA is focused mainly on companies' labour needs, making its graduates much sought after in the agri-food industry.
- Université Laval's Department of Agri-Food and Consumer Economics offers the following programs:
 - BSc in Food Technology;
 - BA in Agri-Food Management and Economy;
 - BSc in Consumer Economics;
 - Certificate in Consumer Economics; and
 - MBA Specialization in Agri-Food Management.
- McGill University has a Faculty for Agricultural and Environmental Sciences that offers undergraduate, masters and doctorate programs, including college programs in farm management and technology.
- HEC Montréal awards certificates in Retail and Distribution Management.
- Université du Québec à Montréal offers a short undergraduate program in retail foodstore management.
- The Cégep régional de Lanaudière offers a number of programs relating to the agri-food sector:
 - food processing technology;
 - agricultural enterprise management and operation;
 - horticultural production and environment technology.

The College has an agri-food complex with four pilot plants covering the meat, grains, dairy and plant product sectors, several advanced laboratories and a greenhouse facility. The College is also a partner of a school farm.

Research & Development

Outstanding Network

Quebec is recognized the world over for the strength of its R&D, which includes the food processing industry. More than one-third of Canadian university researchers and research technicians in the agri-food sector are located in Quebec.

Food Research and Development Centre (FRDC)

The FRDC is one of 19 research centres in Agriculture and Agri-Food Canada. Inaugurated in 1987, it is Canada's largest research centre dedicated to food processing and specializes in food preservation, processing, quality and safety. It also assists food and beverage processing companies with their R&D projects.

Functional Food and Nutraceutical Institute (INAF)

The goal of INAF is to further knowledge regarding human foods. Institute researchers study the impact of nutraceutical products and functional foods to prevent chronic illnesses such as obesity, cardiovascular diseases, immune-related diseases and various forms of cancer.

Centre d'innovation technologique agroalimentaire (Cintech agroalimentaire)

Cégep de Saint-Hyacinthe's Agri-Food technology centre is a college centre dedicated to technology transfer, focusing on the development of innovative value-added and environmentally friendly processes and products. Its expertise covers the following eight areas:

- product development;
- research and development processes;
- technology transfer;
- quality assurance.

Other Research Centres

- Animal Reproduction Research Centre (CRRRA)
- Centre de recherche en économie agroalimentaire (CRÉA)
- Centre de recherche en sciences appliquées à l'alimentation of the Armand-Frappier Institute
- Centre d'irradiation des aliments of the Armand-Frappier Institute
- Dairy Research Centre (STELA)
- Groupe de recherche en nutrition humaine (GRENH)
- The Food Technology Services office of the Quebec Ministry of Agriculture, Fisheries and Food

Research & Development Associations

Quebec Agri-food Export Club

The Quebec Agri-Food Export Club is a network of Canadian professionals serving agri-food exporters. Its objective is to increase exports of its members' products and services.

Conseil de la transformation agroalimentaire et des produits de consommation (CTAC)

CTAC represents over 425 companies in the food products industry. The Council's mission is to represent, promote and defend the interests of its members in the agri-food processing and consumption products industry and demonstrate the competitiveness of its members in local, national and external markets.

Conseil des industries bioalimentaires de l'Île de Montréal (CIBIM)

CIBIM promotes agri-food entrepreneurship and supports agri-food development projects on the Island of Montreal.

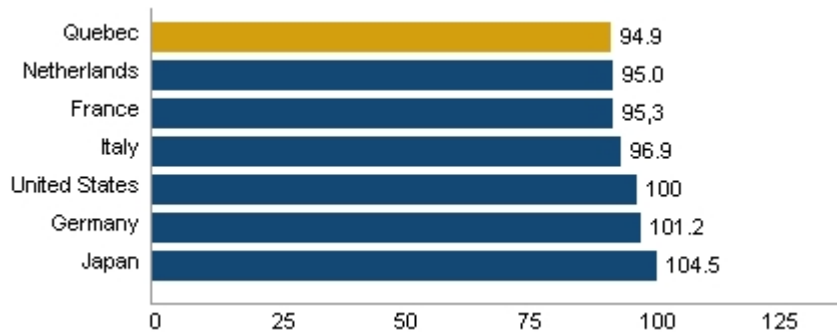
Operating Costs

Highly Competitive Operating Costs

According to a comparative study published by KPMG in 2006, annual operating costs for a food processing company are, on average, 5.1% lower in Quebec than in the U.S.

Comparative Annual Operating Costs

Compound Model: Food processing industry - Index: United States = 100



Note: Cost calculations include labour, electricity, transport, telecommunications, interest charges, depreciation and taxes
Source: KPMG's Guide to International Business Costs—2006 Edition

Operating Costs Labour

Competitive Labour Costs

According to a KPMG study (2006), labour costs are more competitive in Quebec than in other industrialized countries.

These costs are, on average, 14.1% lower than in the United States for the food processing industry, partly because the salaries are lower in Quebec.

Here is an example of cost differential and distribution in total pay for a worker in Quebec and in the United States.

Comparison of Average Salary Quebec and United States (US\$, Agri-food Industry)					
	Average salary (KPMG)	Statutory benefits	Optional benefits	Sub-total: Social benefits (Statutory & optional)	Total pay
Montreal, QC	38,527	5,627	8,091	13,718	52,245
Quebec, QC	36,382	5,345	7,645	12,990	49,372
Sherbrooke, QC	34,518	5,036	7,255	12,291	46,809
Chicago, IL	43,482	5,527	11,391	16,918	60,400
Milwaukee, WI	42,064	7,155	11,018	18,173	60,236
Minneapolis, MN	43,464	7,618	14,536	22,154	65,618
Raleigh, NC	39,736	4,555	9,209	13,764	53,500
St.Louis, MO	41,036	5,691	13,727	19,418	60,454

Source: KPMG's Guide to International Business Costs-2006 Edition

Financial Solutions and Taxation

Financial Solutions for You

Investissement Québec can assist you with your expansion plans, providing consulting services as well as financing assistance. In addition to being an economic development agency, we are also a financial institution. We have several financial solutions for you:

SMB Financial

We can provide a loan guarantee, i.e. a repayment guarantee on a loan, a line of credit or a letter of credit granted by a financial institution. We also offer loans.

Strategic Support for Investment Program (PASI)

If your company is planning an investment or seeking to develop a new product, we can provide various types of loans, a loan guarantee or a non-repayable contribution.

The Strategic Support for Investment Program (PASI) favours investments that target diversification or consolidation of a particular sector, and product development that is distinctive because of its innovative nature and commercial potential.

Refundable Tax Credit for Processing Operations in Resource Regions

A company that conducts processing operations in a resource region may be eligible for a 30% refundable tax credit on the increase in total payroll for eligible employees in the calendar year, compared to the reference calendar year.

Financial Solutions and Taxation Measures to Stimulate R&D

Certain Quebec tax measures enable companies to realize considerable savings on R&D costs. The real cost of a CDN\$100 R&D expenditure may be as low as CDN\$39.

Net cost of CDN\$100,000 R&D expenditures incurred in Quebec by a large corporation or by a foreign-controlled corporation in the manufacturing sector

Example 1: A corporation incurs expenditures of \$100,000 on R&D; i.e., \$65,000 for the salary of a researcher, \$15,000 for subcontracting services in Quebec and \$20,000 for materials.

Example 2: A corporation incurs expenditures of \$100,000 on R&D; i.e., \$60,000 for the salary of a researcher, \$30,000 for materials and \$10,000 for equipment.

	Example 1	Example 2
	\$	\$
Expenses		
A - Salaries	65,000	60,000
B - Subcontracting services	15,000	—
- Materials	20,000	30,000
- Equipment	—	10,000
C - Total R&D expenditures	100,000	100,000
Quebec tax credit		
(A + B/2) X 17.5%	12,688	10,500
Federal tax credit		
Total expenditures (C)	100,000	100,000
Overhead (A X 65% ¹)	42,250	39,000
Less Quebec credit	<u>(12,688)</u>	<u>(10,500)</u>
D - Expenditures eligible for credit	129,562	128,500
E - (D X 20%)	25,912	25,700
F - Total tax credits	<u>38,600</u>	<u>36,200</u>
Net cost for the corporation (C-F)	<u>61,400</u>	<u>63,800</u>
Tax savings (when profits are earned)		
Federal ((C - F) X 22.12%)	13,582	14,113
Quebec ((C - E) X 9.90%)	<u>7,335</u>	<u>7,356</u>
G - Total tax savings	20,917	21,469
Net cost for the corporation (C-F-G)	<u>40,483</u>	<u>42,331</u>

¹ Proxy method used to calculate overhead. Under this method, overhead actually incurred is replaced by 65% of R&D salaries.

Source: Investissement Québec and Raymond Chabot Grant Thornton, March 2006

Financial Solutions and Taxation

Capital Tax Exemption

Quebec requires businesses to pay a tax on capital of 0.525%. To stimulate new investment, Quebec grants businesses that are established in the province an exemption from the tax on capital for the first CDN\$1 million of taxable capital. The government of Québec has also announced a reduction of the tax on capital for all companies in order to bring it to a more competitive level.

Between \$1M CA and \$4M CA of taxable capital, the amount of the exemption is subject to a declining rate.

RATES ANNOUNCED FOR TAX ON CAPITAL

2007	0.49%
2008	0.36%
2009	0.29%