World Report

CANADA
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INNOVATION AND GROWTH
New ideas are the key to economic success

THE APPLIANCE OF SCIENCE
Converging technologies revolutionise medicine

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A new strategy aims to bring Canada into the top rank of technology-based nations

The thousands of Britons who visit Canada each year – most of them for the first time – all come away with much the same image: a vast country with plenty of fresh air and room to manoeuvre. It is a land of endless forests and plains, massive snow-capped mountains, countless lakes and great, unspoilt wilderness.

Visitors are impressed by the modern cities, the wide range of cultural activities and entertainment, and the keen interest in sporting pursuits. Yet Canadians themselves are only too well aware that their technological development and standards of living remain behind those of their neighbour and main trading partner, the United States.

Now the government has unveiled its master plan to revitalise the economy and make Canada a world leader in research and development (R&D) by 2010. Called the Innovation Strategy, it aims to raise venture capital investments to US levels and increase the number of post-graduate students by two-thirds within a decade.

Industry minister Allan Rock says: “Canada must become more innovative. We need to find ways to create knowledge and bring it to the market more quickly, secure a skilled workforce, support our communities as magnets for investment and make our business and regulatory policies attractive. If Canada is to be successful globally, innovation must be everybody’s business.”

Human resources development minister Jane Stewart says skills and learning are the foundation of the strategy. “It is our knowledge and skills that lead to new concepts and original products and services. This strategy is about equipping all Canadians with the tools they need, because a country with a workforce that knows a lot, creates a lot. Their knowledge is the currency of our economy.”

Canada’s standards of living fell behind those of the US during the 1980s and 1990s, as its industrial competitiveness declined. Canadian companies are only two-thirds as productive as their US counterparts. Canada’s share of foreign direct investment (FDI) in North America has also fallen.

A decade ago, Canada had the third-highest standard of living among industrialised nations; now it ranks last among the Group of Seven (G7), the world’s major industrialised nations, countries.

National debate on ambitions and economic targets

Many Canadians criticise the number of regulations governing their lives and businesses, which act as a damper on economic growth.

The government recognises that a long-term national commitment is required to achieve Canada’s economic potential in the global economy. The Innovation Strategy is a major discussion paper, designed to spark a national debate about goals, ambitions and economic targets, and improve and protect the quality of life.

The government is initiating dialogue with partners in the provincial and territorial governments, and with business, labour, academia and the voluntary sector, as well as individuals. A series of regional and sectoral meetings have been arranged, which will culminate in a national summit this autumn.

The Innovation Strategy paper also sets targets. Education and skills training is at its core. “A knowledge-based economy will require highly-skilled workers to support economic growth and innovation,” the paper’s authors say.

Among indicators of business performance, one of Canada’s lowest scores is for skills training. Within five years, the strategy aims to ensure businesses increase their annual investment in training per employee by one-third.

The strategy paper recognises the contribution to be made by immigrants. “Due to our ageing population and low birth rates, Canada’s labour force growth will slow significantly without immigration,” it says. “Between 1991 and 1996, immigration accounted for 70 per cent of net labour force growth. As a result of demographic shifts, immigrants are expected to account for all net labour force growth by 2011 and for all our net population growth by 2031.”

Canada has been successful in attracting highly-educated people. Recent immigrants have higher average levels of education than the Canadian-born population. In 2000, 58 per cent of working-age immigrants had a post-secondary degree at landing, compared with 43 per
A marked improvement in consumer confidence helped Canada’s economy avoid slipping into recession in the last quarter of last year, despite a slowdown in growth and the aftershocks of the September 11 attacks on the country’s biggest trading partner.

The biggest single boost came from a surge in motor vehicle sales that lifted the retail industry. A robust housing market was stimulated by low interest rates which spurred construction and the activity of real estate agents and brokers.

Wholesale trade and increased demand for information and communication technology (ICT) services had a positive effect, and industries in the travel sector continued to win back customers.

The downward slide in manufacturing and weakness in the mining and energy sector continued to constrain expansion, however.

Although the Canadian dollar dropped to record lows against its US counterpart at the beginning of the year, Mr Dodge says Canada’s economic recovery in no way hangs on a weak dollar.

The worth of the Canadian currency is a frequent topic of discussion and analysts ponder the possibility that Canada might one day adopt the US dollar. Both the government and the central bank stress the need for monetary independence, but analysts say a common currency would remove exchange risks and could boost trade between two nations that already shift US$1 billion in goods across the border every day.

According to a study of business costs across nine industrialised nations conducted by financial consultants KPMG, Canada is regarded as the cheapest place to do business, with Germany and Japan the most expensive.

The study says Canada remains the lowest-cost country in software, research and development, corporate services and various manufacturing operations.

The Innovation Strategy paper has been defined as two consecutive quarters of negative growth.

Low interest rates, due to sharp cuts by the central bank throughout 2001, and cheap loan deals encouraged the spending spree. Bank of Canada governor David Dodge summed up: “People are more optimistic.”

According to Statscan, the increase in net exports provided the biggest stimulus to fourth-quarter GDP. “Imports dropped off much more sharply than exports, and businesses met the resulting shortfall of supply to domestic demand by drawing down inventories and stepping up production,” the agency says.

Optimism about the economy is shared by analysts looking ahead to the rest of this year. Growth in GDP is projected at above four per cent in the second half of 2002. “The economy should gain significant momentum as the year progresses,” says a Bank of Canada report.

Sal Guatieri, senior economist at Bank of Montreal, says: “There are enough positive elements to suggest recovery is on the way.”

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QUEBEC

With its astonishingly rapid rise to prominence in global markets and an agreeably leisurely lifestyle, it is perhaps surprising that more Britons are not heading for Quebec. The French certainly are and they have now overtaken the British as the province’s second major trading partners.

Quebec is, at 1.7 million sq km, about seven times the size of the UK, but has a population of just 7.2 million. So, how has this vast territory levered itself into a position where some of the world’s largest corporations and manufacturers, from aircraft makers to pulp and paper producers, are headquartered there?

Forty years ago, Quebec had one of the lowest education levels in the Western world and produced a correspondingly low level of entrepreneurship. But then the province made education its top priority, investing heavily in what was called ‘the quiet revolution’.

Today, Quebec boasts one of the highest educational levels in the world. Two of the three key factors that attract foreign investors are the high quality of research and the relationships made with its universities, in particular the medical schools at McGill and Montreal universities, which have gained an international reputation.

This drive to improve education standards was coupled with a ‘Building Quebec’ programme in the 1970s, which embraced an aggressively capitalistic, state-interventionist economy. The state actively encouraged investment, particularly in R&D, often taking a stake in an enterprise to provide not only capital but a guarantee at the same time.

Quebec’s economy is dependent on its natural resources. Its forests are the biggest timber, pulp, paper and furniture manufacturing sectors. Today, Montreal, the pulp and paper manufacturing capital of the world, is also an international aerospace centre on a par with Toulouse (where the Airbus is made). Bombardier, which collaborates with its counterparts in Toulouse, is the third biggest aircraft manufacturer in the world. Quebecor is the biggest printer in North America and the world, and Alcan is one of the world’s biggest aluminium producers.

Multimedia City in Montreal has attracted many foreign hi-tech firms, including Motorola, Ericsson (with its largest R&D centre outside of Sweden), Bell Canada and BCE Emergis. Nortel has a data transmission manufacturing centre in St Laurent. It is estimated that between 75 and 80 per cent of all Canadian internet traffic is conducted over equipment made in Montreal.

Quebec has thriving pharmaceutical, power generation and petrochemicals industries, as well as the traditional timber, pulp, paper and furniture manufacturing sectors. Tourism is increasingly important. “All this has been made possible thanks to our massive investment in education in the 1960s,” says Jacques Girard, the president of Montreal International, a private investment and promotion agency.

The other major factor that makes Quebec so attractive is its tax advantages, particularly rebates on salaries. “In R&D, our programmes are very competitive,” says Mr Girard. “That is one of the reasons why Rolls-Royce decided to move one of its main research projects to Montreal.”

He adds: “France is in second place as our trade partner, ahead of the UK and behind the US. This can vary from year to year. We are very pleased to see them acquainted with the healthcare system. We also have an experimental programme to help the strategic worker’s spouse to find employment. Very often, strategic workers are married to someone who has had an interesting job and doesn’t want to sit about at home.”

The province’s premier, Bernard Landry, believes Quebec’s economy is one of the most diversified in the world.
He is also confident that Quebec will weather the current US-driven recession. “Even if it isn’t looking very good right now in North America on an economic level, Quebec is doing very well,” he says. “Canada is the first trading partner of the US, so our base is positive and solid. We are going to use the slump to better prepare for the comeback.”

The premier is determined that Quebec should not lose any of the characteristics that have set it apart, however. “We don’t want globalisation to be synonymous with the destruction of languages, cultures and national identities,” he insists.

“We have been fighting for three-and-a-half centuries to stay what we are in very adverse conditions. We don’t want globalisation to make us like the leaves in an autumn wind.

“Nor do we want globalisation to be synonymous with government by multi-nationals. We have socio-economic objectives, which can all be regulated by international institutions capable of civilising globalisation. If the IMF (International Monetary Fund) and the World Bank do their jobs well, and the UN and its diverse agencies do their job well, globalisation will be beneficial.”

Quebec, he adds, is the Quebeccois ideal – “a synthesis between our values in the continent of America and those of Western Europe, with which we are still very much in touch.”

Invest Quebec (IQ) differs from other investment promotion agencies in that it is mandated by the government to manage all the support programmes for investment offered by the government of Quebec. “We can therefore participate in the financial development of a project,” says IQ president, Louis Roquet. “Our three functions are as a promotion agency, as the manager of incentive programmes and as a financial institution.”

Investment in the hi-tech sector continues to grow

“We do not invest in the project – we are not a venture capital company such as SGF (Societe Generale de Financement) – but we work at the leverage level. We do financing by loans or we offer guarantees to companies to encourage them to participate in certain financing, known as project financing, without [their having to] resort to corporate guarantees.”

Quebec’s biotechnology companies are working at the cutting edge of research, adds Mr Roquet. There is a great deal of cooperation between the universities’ research departments and industry. Investment continues to grow in the hi-tech sector, as well as in telecommunications, optical equipment manufacturing and pharmaceuticals and chemical companies.

Resource-rich land with strong identity

One company, Falconbridge, has invested US$1 billion in a large nickel mine at Raglan. The mining business uses a great deal of power, and there is huge investment potential in hydropower in the lakes of northern Quebec.

More electricity will be needed as industry and the population grows. With some 34,000MW of installed capacity, Quebec is already the top electricity generator in North America, where it has some of the lowest energy costs. The only places which can compete on costs are Manitoba and British Columbia.

Meanwhile, the debate about Quebec sovereignty continues, says international relations minister Louise Beaudoin. “Ottawa still does not recognise the legitimate existence of our nation,” she says. “This is a source of frustration. With the notable exception of Haiti, Quebec is the only francophone nation in the Americas. Ninety per cent or more of francophone Canadians live in Quebec.”

She adds: “First and foremost, our nation ought to be recognised as representing a distinct and original historical experience. Like most others, our society is indeed multicultural and diverse, although English and German are linguistic minorities within the French-speaking nation of Quebec.”

Mrs Beaudoin, who hopes the Summit of the Americas will prove a turning point for Quebec, adds: “Globalisation brings about challenges, like that of building a common market of confederated nation states, wherein Quebec would be free to pursue its interests and find its niches, much like the strategy adopted by the UK within the framework of the European Union.”

Quebec’s infrastructure is also undergoing an overhaul. A master plan for Montreal’s Dorval International Airport, which covers the period 2001-09, includes the expansion of the terminal building and a new international baggage reclaim area.
Healthy profits for biotech com

Researchers can process data faster, enabling new drugs to be produced and marketed earlier

Canadian biotechnology firms are growing as the drive to develop new drugs has resulted in alliances between university departments, medical research companies and some of the world's biggest hi-tech corporations.

There are more than 280 Canadian biotech companies, two-thirds of which are small businesses employing a maximum of 50 people. Total annual revenues in the sector exceed US$1 billion, while R&D spending is more than US$585 million.

Healthcare is the main area of research, followed by agriculture, and there is big potential for future growth. The convergence of technology and medical research has reduced the time that researchers have to spend on repetitive, often inconclusive experiments, with the result that today's experiments, with the result that today's biotech firms can process vast amounts of information faster than ever before.

In turn, biotechnology has given a new impetus to the hi-tech sector. IBM values the life sciences market at US$30 billion or more in annual sales by 2004. Biology is replacing physics as the catalyst for new technological development.

"The future is the fusion of scientific disciplines," says Frank Gleeson, chief executive of MDS Proteomics, a Canadian biotech company that has formed an alliance with IBM.

The rapid pace of technological growth, and the continual flow of new medical products on the market, bodes well for Canada's nascent biotech companies. MDS Proteomics has set a sales target of US$500 million over the next 10 years. Despite this, the sector is in its infancy.

"The average individual cannot comprehend what has happened in the past half-dozen years," says Cal Stiller, chief executive of the US$250 million Canadian Medical Discoveries Fund.

The trend towards reducing the role of the public sector in scientific research has stimulated the expansion of private companies working in the field of biotechnology. Since many are new and still at the development stage, their success depends as much on sustaining confidence in the money markets as on advancing the cause of science.

"Biotech companies, especially those without any sales revenue, very much live on our ability to raise money from the public markets, so the price of our stock is an important issue," says John Kennedy, president of Hemosol, a Toronto-based firm that specialises in blood products.

Keeping the markets happy entails a delicate balance between the shareholders and the needs of the industry. "We believe that we properly and correctly inform our shareholders about corporate news, and as a result they are able to make their own choices about buying and selling our shares," says Mr Kennedy.

Hemosol hopes to win approval from the UK authorities to supply Hemolink, a new product the company believes will transform surgical blood transfusions. It is produced from haemoglobin, the oxygen-carrying red blood cells. "We remove other components of the blood that might cause a problem and this reduces the risk of transmitting a virus. Then we can store other components of the blood that might cause a problem and this reduces the risk of transmitting a virus. Then we can store".

Testing times: it costs US$200 million-plus to research and develop a drug and bring it to market

Healthy profits for biotech com
companies

major chore and we don’t necessarily want to do that on our own, but we will if we have to,” he adds.

As it awaits official UK and US approval, Hemosol is so confident in its product that it is gearing up to produce it for commercial sale. “We are building a manufacturing facility that will make us a leader in this area. We believe there is no point in spending US$150-200 million to get a product approved if you cannot produce it in commercial quantities. And it takes three years from the moment you decide to build a factory to manufacturing a therapeutic product like Hemolink.”

Vancouver-based QLT is conducting clinical trials for a drug designed to reduce resistance to chemotherapy and hopes to launch it in 2004.

Company president Julia Levy points out that it costs at least US$200 million to research and develop a new drug and bring it to market. “You have to be able to justify spending the money in terms of the size of what you get back from your initial investment,” she says.

Dr Levy gained government funding to set up QLT in 1981 and five years later it listed on the Vancouver Stock Exchange.

Her work on Photodynamic Therapy (PDT) involves the application of inert chemicals that are activated by light at specific wavelengths. “The chemicals have the tendency to accumulate in abnormal tissue in the body. The first applications of PDT came about in terms of the treatment of solid cancers,” she explains.

Meanwhile, the Quebec-based company Theratechnologies is a leader in growth hormone releasing treatments that can be applied to a variety of conditions, including bone marrow transplants. Listed on the Toronto Stock Exchange, the company set up a subsidiary last summer, to maximise the potential of its products.

It recently formed a partnership with a Japanese firm to focus on hip-fracture applications. President Luc Tanguay says: “We expect this agreement to deliver significant revenues for Theratechnologies and its shareholders if all our indications are developed.”

Kennedy

Hemolink will be the first alternative to the use of donor blood for anaemia

Levy

You have to justify the money against the size of what you get back

Graphics help to animate IT business

Spending in Canada’s IT sector is expected to slow this year as a result of the global downturn, but most firms remain bullish and indications are that many will expand operations.

The IT industry includes many world-class firms, ranging from GEAC Computer Corporation to graphics companies Softimage and Matrox, and from CGI Group to IBM Canada, which employs more than 17,000 people.

The sector has tended to focus less on back-office operations and more on specialised areas such as graphics – Canadian firms account for 80 per cent of the world’s animation and special effects. Besides well-known IT centres like Toronto, Montreal and Ottawa, there are clusters of specialised companies in Edmonton, Calgary, Winnipeg, Saskatoon and Vancouver.

Canadian software firms earn 73 per cent and IT services firms 20 per cent of their revenue from exports. Strategic alliances and niche marketing are characteristic, and many domestic firms now have a presence abroad. Canada is one of the top investors in China, with over US$10 billion invested in projects from biotech to IT since 1980.

Canada’s highly-developed IT sector is not expensive to break into. Unlike in the US, the Canadian government bears the cost of social security, healthcare and education, including university level. Overall, taxes are lower in Canada too, while a 1999 KPMG study showed that advanced software firms locating there enjoyed a 14.5 per cent cost advantage over similar firms in the US.

A recent survey reveals increased optimism regarding the application of IT in Canadian business. “The survey shows we are on the verge of a second technology expansion,” says Dr Peter Carr, director of Athabasca University’s Centre for Innovative Management.

“Confidence is growing, spending is increasing and Canadian IT companies are becoming more competitive.”

The survey, conducted by Athabasca University and CIO Canada magazine, involved more than 2,800 IT managers and professionals. Dr Carr says that for a positive trend to continue, business and government must take security and privacy issues much more seriously.

Meanwhile, research by Toronto IT analysts IDC Canada suggests the industry is being redefined. Its findings paint a picture of a sector in which fewer new services are introduced. Instead, it will be more about how products are packaged, sold and delivered worldwide.

IDC Canada says overall spending on information technology in Canada will increase to US$48.6 billion by 2003, down from the previous projection of US$53.6 billion. However, the firm says that, unlike the US, Canada will see gradually slower growth rather than a slide. Services, and to a lesser extent software sales, will compensate for hardware declines.

Montreal-based Saturn Solutions is a major player in international IT and, more recently, a certified replicator of copy-protected disks to combat software piracy. Company president George Hurlburt says IT-user businesses considering reorganisation, particularly via outsourcing, recognise the internet’s cost-effectiveness, but concerns about security remain.

He says: “Our core competency is sourcing, assembling and shipping, using the internet. In this economy, prospects are good because people are going to look at outsourcing seriously as they are looking to economise. If they manufacture in-house, they understand the extra fixed-cost infrastructure that the cyclical nature of the sector involves. Outsourcing eliminates this.”

Saturn has integrated its distribution system to enable its plants in Montreal and Utah to assemble and ship 750,000 packages within five days, and operations on this side of the Atlantic have been streamlined too.

Mr Hurlburt says: “We will generate new revenue and invest in more customer support staff in the UK, but we will not be investing in more CD-manufacturing because we have underused capacity in Ireland. But we are basically looking to re-establish our final assembly and distribution operations in the UK. The Channel Tunnel makes a big difference to our ability to deliver products economically to the continent overnight.”

Montreal-based Softimage, a division of Boston-based Avid, is a 3D animation and special effects specialist whose revolutionary software product was used to make the Jurassic Park dinosaurs, the first photorealistic computer-generated characters to hit the big screen. The firm’s newest offering, SOFTIMAGE/Xsi, slices the time required in animating a character and was used in Gladiator and The Phantom Menace.

Managing director Michael Stojda says: “Since our inception in 1986, Softimage has been synonymous with turning dreams into reality through the magic of digital artistry. Our mission is to fuel the imagination through the creation of innovative software tools for digital artists. In this we are all pushing the boundaries of our craft.”

Canada’s largest computer services firm, CGI Group, is planning to expand this year through acquisitions in the US and Europe. Chairman Serge Godin says that CGI is seeking to tap large, long-term outsourcing contracts in both continents. “It’s not about getting bigger, it’s about having the critical mass needed in the countries where we want large outsourcing contracts.”

CGI suffered a slump in 2000 after its Y2K-related business ended, but its outsourcing business fuelled a rebound last year. First-quarter figures for 2002 show revenues up 51 per cent and the firm expects it to be a record year, with revenues topping US$1.4 billion.

Kennedy

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Canada’s forest products industry has braced itself for a tough year. Newsprint output fell by nearly a quarter last December to 592,000 tonnes, from 776,000 the previous year. Exports to the US were down 13 per cent and shipments elsewhere fell 30 per cent.

This should be seen in context, however. Exports of Canadian wood products were worth a record US$47.4 billion in 2000 and employment in the sector grew by more than 20,000 in 1999-2000.

Both the federal government and provincial administrations are investing in the industry – a prime objective being to create jobs. The Quebec government, for example, is lending US$92.6 million as part of a US$250 million plan to install modern high-capacity paper-making machinery at Kruger Wayagamack mill in the province. This will create 110 jobs.

Montreal-based Abitibi-Consolidated, the world’s largest newsprint producer, has been weathering the downturn through rigorous cost controls. Although the price of newsprint softened in the first quarter, the company’s president John Weaver says it should pick up in the second half of this year.

Abitibi has mills in Canada, the US, UK and Asia. The company’s profits slumped to US$2.5 million in the fourth quarter of 2001, compared with US$92 million in the same period of 2000, but its performance still beat market forecasts. Analysts say that, considering the 20 per cent drop in newsprint prices, firms came out better than predicted.

Mr Weaver says Abitibi has “some very fundamental strengths” that have enabled it to make a return for shareholders, albeit somewhat diminished. For example, the firm generates a quarter of its own electricity. “Our low-cost portfolio and long-term initiatives have enabled us to improve our cost position, despite significant downturn,” he says. “Over the next five years we are focusing on reducing our energy use by one per cent a year, to help improve our self-sufficiency.”

Mr Weaver draws an interesting parallel between North American and European newsprint manufacturing. “Europe is still a relatively good growth market. It’s no Asia, but it is growing by two-to-four per cent a year. Historically, it has done better than the US. Certainly, some markets, like the UK, have a very high newspaper readership and competitive market, whereas in the big US cities you tend to find only one or two newspapers.”

In North America, demand varies from region to region, whereas in Europe demand for better paper tends to be higher, Mr Weaver adds.

When pundits were predicting a decline in reading due to internet and digital technology, they overlooked the demand for high-quality print images which, of course, require high-quality paper. To an extent, improvements in IT and graphic

Sound fundamentals and new investment underlie optimism about the future for one of the country’s most vital industries

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Quebec-based Tembec is part of a consortium planning a US$298 million reconstruction of Chandler mill in the Gaspe region of Quebec. The former Abitibi-Consolidated newsprint mill, which closed in 1999, will be refurbished to produce high-gloss coated paper, creating 260 jobs.

Tembec has mills across Canada, the US and Europe. Most of its business is lumber, specialty pulp, newsprint, and magazine paper and carton board. Its chief executive, Frank Dottori, says: “Expect more rationalisation in forest products and it could take two or even three years for prices to return to the long-term line trend.”

With the addition of the Chandler mill’s estimated 200,000 tonnes-a-year capacity, Tembec will be the sixth-largest paper producer in North America. Mr Dottori says: “With this hi-tech state-of-the-art project, our participation in the reopening of Chandler mill will not only enable us to pursue our growth strategy but also give us an edge in a highly-competitive market.”

Last year, Tembec became Canada’s leading producer of specialty wooden flooring, windows and furniture when it bought Davidson Industries’ mills near Ottawa and in New Hampshire (US), as well as a distribution centre in Ireland. Dominic Gammiero, chief executive of Nexfor, another leading player, says sound fundamentals have helped his company through the slowdown. "Our strong financial position, business mix and cost-effective operations position us well for strong earnings growth as conditions recover. This will continue to be a tough year, but we expect some improvement.”

Quebec-based forestry-products giant Cascades, recorded a profit last year of US$120 million. The company, which makes box and container-board, tissue and fine paper, saw sales hit a record US$3 billion, up 5.3 per cent on 2000. Its president, Laurent Lemaire, says the improved performance was a result of major restructuring last year.

Vancouver-based Norske Skog Canada suffered a fall in fourth-quarter earnings, but its president, Russell Horner, believes the cyclical nature of the sector will see a return to more favourable conditions as the US economy recovers.

One of the world’s biggest and most successful industries is Canadian mining. Geological conditions, coupled with a competitive investment code and political and economic stability, has attracted big international names such as South Africa’s De Beers, BHP Billiton of Australia and the UK’s Rio Tinto.

Hundreds of prospectors are staking a claim in Canada’s wilderness, prompting headlines of a new gold rush. And there is also talk of a diamond exploration explosion, with Canada becoming a ‘diamond country’. Alliances are being formed and investment is flowing in, while new legislation is making it easier to set up in the more remote regions.

Last year, De Beers spent half its global exploration budget in Canada and it is looking to spend more. BHP Billiton owns what is at present Canada’s only producing diamond mine, Ekati, in the Northwest Territories. Two others are being developed nearby by De Beers and a joint-venture between Rio Tinto and local firm Amber Diamond Corp. Once all three mines are in production by 2004, Canada will become the world’s fifth-largest diamond producer, after South Africa, Botswana, Australia and Russia.

Many of Canada’s most successful players have taken their expertise abroad in a bid to expand, although there is immense potential at home. Local firm Ashton Mining has seen its stock quadruple on the back of good reports regarding its diamond exploration in Quebec’s Otish mountains.

Inco, based in Toronto, is the world’s top producer of nickel, providing about a quarter of the world’s supply. The company, which is celebrating its 100th birthday, also mines and processes copper, cobalt and precious metals such as gold, silver and platinum.

Inco’s primary mining and processing operations are in Canada, Indonesia, China, Japan, South Korea, Taiwan, the UK, and on the Pacific island of New Caledonia, where its US$1.4 billion Goro nickel project will significantly enhance its production figures.

Company president Peter Jones is bullish about long-term prospects despite the uncertainty of the metals markets. “We are in a cyclical business. We’re mainly producing a commodity, although we try to differentiate what it is we produce from the rest,” he says.

The firm aims to be profitable at the bottom of the price cycle and to make big profits at the top. “We’re getting much closer to that,” adds Mr Jones.

Last year, Inco posted a profit on the back of healthy nickel prices and plans to do the same this year. In five years, Mr Jones expects nickel output of over 600,000 pounds a year, against 460 million pounds for 2001. Expansion is also expected for copper, cobalt and platinum.

Inco has developed a reputation for innovation and know-how. In the car industry, it works with manufacturers such as Toyota to improve battery products. Inco is also something of a pioneer in producing nickel powders and foams for rechargeable batteries.

Mr Jones would like to double Inco’s earnings from specialty products to US$400 million over the next few years. “Specialty products have a market that is less prone to the fluctuations of the normal metals cycle,” he says.

Vancouver-based Northgate Exploration, which owns the massive Kensem copper and gold mine, has formed an alliance with Doublestar Resources and Precon Tunnelling & Mining to develop the Sustut copper deposit in British Columbia. It is estimated to contain six million tonnes of copper, as well as silver, and production could start in mid-2003.

Having been refinanced, Northgate is set to expand drilling at Kensem, in which it took a 95 per cent stake in 1999. The Kensem North project has an estimated 5.7 million ounces of gold.

Northgate outputs 260,000 ounces of gold and 75 million pounds of copper a year from Kensem South. The estimated lifespan of that mine is eight years, but fresh drilling is due to start this summer.

In the September quarter of 2001, Northgate finalised a US$100 million, six-year syndicated loan to refinance the one it took out to buy Kensem from Royal Oak Mines. Northgate chairman Terry Lyons says sweeping changes were introduced to turn the mine around. “We changed everything. We cancelled all our supply contracts, which we were allowed to do under the [Royal Oak] bankruptcy.

“We reorganised our whole approach to maintenance and made some key suppliers our partners to improve performance. We acquired more trucks and another loader so we could move more material – we even changed our caterers. We have raised productivity by about 50 per cent and revenues by US$20 million by reducing costs.” That the Kensem mine yields both copper and gold helps to cap costs, says Mr Lyons. “Recycling copper is very costly and there aren’t a lot of mines coming onstream. Marginal producers are having to leave the business. Those with a by-product such as gold can cut their copper exploitation costs.”
The new power generation

The ability to store low-cost hydroelectricity, for which there is massive future potential, creates big export opportunities

Deregulation of the US electricity market, combined with the rapid pace of technological innovation, has radically altered the power industry in recent years. In Canada, where electricity costs are generally lower than its neighbour, this translates into a significant competitive advantage.

About 10,000 years ago, retreating glaciers ground their way across Quebec, carving out thousands of lakes and rivers. As a result, there are now massive reserves in freshwater lakes, which can feed the country’s hydroelectric power plants. Of all the regions in North America with hydropower potential, the Saint-Maurice River valley, known as Mauricie, was one of the first to be developed.

Scraped out by two successive waves of glaciers, 523km-long Mauricie has many falls and rapids, and the valley has formed the basis of Hydro Quebec’s success. The Canadian firm has an ongoing US$6.9 billion investment programme in this region that will raise generating capacity over the next decade. Future projects include Peribonka in Lac St Jean (450MW), Eastmain-Rupert in the north (1,200MW), Toulnustouc north of Baie-Comeau (526MW) and Romaine I on the North Shore (220MW).

Hydro Quebec owns or operates facilities capable of generating 37,000MW, nearly all hydro-based. The firm distributes power to 3.5 million residential and commercial users across Quebec, neighbouring provinces and northeastern US. Although it has an aggressive investment programme to expand capacity, new business areas have some of the most exciting prospects.

Company president Andre Caille says “We are among the few firms able to stock vast quantities of electricity”

Company president Andre Caille says one major area of commercial growth is to buy energy from other producers to sell to customers, which he calls “optimising existing assets”. This involves buying excess electricity, enabling the firm to slow down its turbines and keep water levels high in the giant reservoirs that feed its hydropower plants.

“The idea is to stock up on electricity when prices are low and sell when they are high. This has enabled us to increase our turnover in three years from $8 billion to $11 billion, or a bit over 30 per cent, and to quadruple our bottom-line profits thanks to optimising our assets,” he says.

“By 2016, Hydro Quebec forecasts that annual demand for electricity will rise 1.2 per cent until 2016. Growth over the past 15 years has been about 2.6 per cent, although this should slow because of fewer big new industrial projects coming online.”

International markets present exciting growth prospects for the company, which

From field to table, the food

Exports of Canadian agricultural goods reached a record level in the first 11 months of 2001, with the biggest increases in slaughtered cattle, beef and pork.

Canada exported US$15.3 billion worth of agricultural and agri-food products between January and November last year, according to figures compiled by Statistics Canada and Agriculture and Agri-Food Canada (AAFC). That represents an increase of 13.4 per cent over the same period in 2000.

“Sales of slaughtered cattle, mostly to the US, soared by 48 per cent, while sales of fresh and frozen pork were up 26.7 per cent and beef exports rose by 24.6 per cent.”

Canada’s role as a provider of food products to the big American market, to Japan and Mexico is rapidly expanding to include the UK and the rest of Europe. The country exports a wide variety of foods, including processed meat and poultry, which, with the selling point that these are made in Canada – something officials are keen to promote as a badge of quality.

Analysis by consulting firm KPMG concludes that the costs for Canadian-based food processors are 7.5 per cent lower than those in the US. In the food-processing sector, Canada ranked first in North America and fourth overall, behind the UK, Italy and Netherlands.

Ontario is leading the country in exporting agri-food products, with sales up 13 per cent up on the previous year, while the rest of Canada saw export growth of less than six per cent.

Provincial minister for agriculture Brian Coburn says: “Ontario remains on the right track, continuing to cut taxes, reduce red tape and support the competitiveness of the agri-food sector, which has a vital role to play in the province’s economy.”

Virtually every sector of the province’s agribusiness saw higher exports. Food ingredients were up 35 per cent, grains 24 per cent, fresh and processed vegetables 23 per cent, meat and animals 22 per cent, and confectionery 18 per cent.

Quebec is a key exporter of staples, such as meat and dairy products, to the US. The agriculture ministry administrators a sector which provides one in nine of the province’s jobs. It organises roundtable groups to coordinate the sales and marketing of food products in no less than 27 key areas, ranging from milk and cheese to pork and lamb.

Nearly three-quarters of all Quebec’s food exports are destined for the US, while about eight per cent goes to
In the developed markets of North America, the company is encouraging greater participation of smaller, independent power producers to sell energy into the market via Hydro Quebec. And, in May 2000, it even opened its own energy trading floor.

Mr Caille believes Hydro Quebec’s cost advantages and reputation will enable it to achieve more success in future as electricity trading continues to grow. The potential to increase sales is enormous, given the overall demand for electricity in the US and Canada.

Larry Bell, chairman of Vancouver-based BC Hydro, also sees great potential in trading in energy as his company can store electricity capacity in its huge dam reservoirs, which feed its power stations on the Peace and Columbia rivers.

“We store enormous amounts of energy behind the dam in the form of water. If you owned six inches of water behind the dam you could forget about working for the rest of your life,” he says.

This ability to store energy represents an enormous opportunity to export power – the hydroplants can work at a higher capacity during peak demand times, and can then be ‘turned off’ at times of low demand.

The power grid interconnects from Mexico to Alberta, and almost all of BC Hydro’s output is sold in a region spreading from the Rocky Mountains to the Pacific Ocean, and from northern Alberta to Mexico.

Europe. Of this, about a quarter arrives in the UK. Needless to say, maple syrup represents an important niche area.

Quebec’s primary exports include pork, beverages, cocoa by-products like chocolate, fruit and vegetables, and dairy products. In just 10 years, the value of exports has increased by 135 per cent.

Quebec agricultural minister MaximeArseneau says his primary role is to ensure the growth of the sector in a sustainable way, although clearly the development of export business is vital.

Quebec is using British know-how in the sector to improve its capabilities. This partnership includes working with the team responsible for the cloning of Dolly the sheep.

Mr Arseneau says Quebec has taken steps to speed development through advantageous fiscal arrangements and he calls his administration “one of the most generous governments in Canada” for the agricultural sector.

The industry is well organised. The Coopérative fédérée de Quebec, an agri-food cooperative, is one of the largest concerns in the province and an example of the serious commitment to sustainable development of farming communities. Representing the interests of 37,000 members, it deals with three main areas: farming equipment, fuel distribution and, on an international scale, distribution of poultry and pork products through a subsidiary, Olymel, mainly to the US and Asia.

Mr Arseneau says the taste of Quebec is set to become a major asset. He believes local food firms will be able to compete with the best – in Canada, North America and the rest of the world.

“We have almost the same number of cheeses as France – around 300. The message is ‘taste Quebec’ – it’s very good. It is the easy way for Europeans to come to North America.”

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The great outdoors

From the wildly exhilarating to the serenely picturesque, visitors will find much to enjoy.

The weak Canadian dollar has been a factor in attracting US tourists, whose currency is worth nearly double that of Canada. After the US, most visitors are from Britain, France, Germany and Japan.

The CTC has a three-year, US$150 million plan to beat the tourism downturn: 2002 is the Year of Recovery, 2003 the Year of Change and 2004 the Year of Success. The travel industry is turning to the increasingly popular ploy of the movie tie-in. One Canadian firm is offering a 10-day tour based on The Shipping News, starring Kevin Spacey set in Newfoundland.

Tourism contributes an estimated US$17.5 billion a year to the economy of Ontario and employs 430,000 people. Toronto, Niagara Falls and Windsor are the three major points of call.

Richard Legendre, the minister of tourism, leisure and sport in Quebec, says: “We have really started to consider the importance of tourism over the past five years, and we have probably doubled our investment in advertising, although it is still quite modest.

“We target the UK because it is our second most-important European market after France. We’ve noticed that nowadays the Europeans are much more interested in eco-tourism and the great outdoors, and the image of Quebec is still one of wide open spaces and caribou.”

Quebec receives 500,000 visitors from France each year and about 134,000 from Britain. Mr Legendre says the province has four distinct seasons and the authorities are making efforts to extend the holiday period beyond the summer.

Winter sports, plus the Hotel de Glace, which opened in January last year, are beginning to attract more people in the winter months. The ice hotel averages 80 guests per night and expects to double capacity this year.

Mr Legendre, a former tennis professional, is very keen on developing sport in Quebec. “Our tennis tournament is among the nine largest in the world. We have a new stadium and the tournament is almost at the same level as Wimbledon. But all sports are being developed – our department supports almost 50 disciplines.

“In the past 15 years, Quebec has really seen a lot of diversification as people are now interested in a lot more sports. Some 25-35 years ago it was mostly ice hockey and baseball. Now the most popular, in terms of participation, is soccer. That has really come a long way. Cycling is also very strong in Quebec.”

He points out that, although Canada is vast, most foreign visitors fly into one of the major cities. From Quebec City or Montreal, he says you are never more than a five-to-seven-hour drive from some of the province’s most beautiful scenery, whether the Laurentides, Tremblant, Charlevoix or Sanguenay Lac St-Jean.

And, of course, there are the cities. Mr Legendre says: “We have a nice mix of cultures – the modernism of North America and French culture. Often, we say that Quebec is the Europe of North America – that’s important for the European market.”

One of the oldest landmarks is Le Chateau Frontenac in Quebec City, which opened in 1893 and is now owned by Fairmont Hotels and Resorts. This 605-room hotel, part medieval castle and part French chateau, has long played host to the world’s royalty, leaders and celebrities.

The most moderate climate can be found on the British Columbia coastline, indented by deep fjords. Vancouver Island, which shields the coast from Pacific storms, has a temperate rainforest climate. Here you can see the oldest and tallest trees in Canada – Western red cedars that are 1,000 years old and Douglas firs 90 metres high.

Rod Harris, president of Tourism British Columbia, says that the industry remains largely undeveloped except for one sector – skiing. The resort of Whistler, he says, is the best in the world, and three US ski magazines have said the same thing for 10 consecutive years.

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