Board of Trade of Metropolitan Montreal

Recommendations of the Board of Trade of Metropolitan Montreal

With Respect to the 2016–2017 Federal Budget

February 2016

The Art of Business

Preamble

The Board of Trade of Metropolitan Montreal (the Board) has more than 7,000 members. Its mission is to be the voice of Montreal's business community and to promote the city's prosperity. The Board is involved in key areas of economic development and promotes a philosophy of action based on engagement, credibility, proactivity, collaboration and innovation. The Board is the largest private organization in Quebec devoted to economic development.

Introduction

The recommendations regarding the upcoming federal budget are being made in a time of economic uncertainty.

On the one hand, sustained economic growth in the United States could lead to growth in our economy. On the other hand, the persistently low price for oil continues to hamper Canada's economy and its public finances. The lower Canadian dollar should have resulted in a much bigger surge in exports than we have witnessed and could lead to decreased investments as Canadian companies experience a significant decline in productivity.

This uncertain economic climate hinders the business environment and private investment in Canada, particularly in metropolitan Montreal. The Montreal region accounts for 10% of the country's economy. It features a highly skilled workforce, a resurgent entrepreneurial base, well-established and internationally competitive businesses, and a business core that is ready to increase its global market share. Canada's economic performance is based in large part on that of its major cities, and Montreal businesses possess many assets that the government must leverage.

That is why the Board of Trade is calling on the federal government to demonstrate leadership and take advantage of the relatively healthy state of public finances by making strategic investments and improving the business climate with a view to supporting investment and stimulating exports.

I. DEMONSTRATE LEADERSHIP AND IMMEDIATELY ANNOUNCE US$1 BILLION IN STRATEGIC SUPPORT FOR BOMBARDIER

Bombardier is a key player in Canada's aerospace cluster, concentrated primarily in metropolitan Montreal. This cluster employs some 41,750 Quebec workers and accounts for 55% of the Canadian workforce in this sector. It is critical for the government to support the innovative work of this leading Quebec company by funding the final phase of the C Series. **The Board joins with the entire business community and urges the Government of Canada to show economic leadership and match the Government of Quebec's funding by allocating US$1 billion to Bombardier.** It is in the interest of the entire country to see this flagship Canadian company complete one of the most ambitious and commercially innovative projects to emerge in recent decades. It would be devastating to the Montreal region and Canada as a whole if Bombardier were allowed to collapse when success is so close, as witnessed by Air Canada's letter of intent to purchase as many as 75 CS300s.

II. CARRY OUT STRATEGIC INFRASTRUCTURE INVESTMENTS AS OF 2016–2017

The state of infrastructure is a major concern for businesses in metropolitan Montreal. The transportation infrastructure faces the most pressing problems.

The Board recommends that the government:

2.1 Maintain its commitment to increase infrastructure spending by $60 billion as of 2016–2017. The government must also allow for reinvestment in primary and secondary schools to address the maintenance deficit they face.

2.2 Proceed with establishing the Canada Infrastructure Bank – This is to be achieved by maximizing financial resources, and the bank must have the expertise and resources necessary to meet the needs of the provinces and municipalities.

2.3 Resume work on the Ontario-Quebec Continental Gateway and Trade Corridor by allocating funding similar to that for the Asia-Pacific Gateway and Corridor Initiative – In its next budget, the government must identify the funding required to resume work on the Ontario-Quebec Continental Gateway and Trade Corridor. The federal government invested close to $1 billion in the Asia-Pacific Gateway and Corridor Initiative through some 50 strategic infrastructure projects worth more than $3.5 billion.

2.4 Invest in the development of the Port of Montreal – The Government of Quebec, City of Montreal and Montreal Port Authority have agreed to contribute close to $50 million to the new marine terminal, even though this type of infrastructure is under federal jurisdiction. The federal government is to contribute the further $26 million needed to complete the project.

2.5 Reduce the lease payments of the Montreal airport – The high lease payments at the Montreal-Trudeau Airport raise air transportation costs and makes the airport less competitive. As a result, many Canadians cross the border to take advantage of cheaper fares at U.S. border airports. According to one study,[1] 85% of passengers at the Plattsburgh international airport, located an hour south of Montreal, were from Canada.

2.6 Make it a priority to build dedicated tracks for high-speed passenger trains in the Montreal-Toronto corridor – Over the years, various levels of government have considered introducing high-speed trains in the Quebec-Windsor corridor, with stops in Montreal, Ottawa and Toronto. In 2015, VIA Rail also proposed introducing a high-frequency train in the Montreal-Ottawa-Toronto corridor.[2] The time has come for the government to launch a thorough feasibility study of these projects and make a decision. Dedicating tracks to passenger rail would significantly increase the frequency, reliability and speed of rail travel and increase business opportunities between companies in large cities.

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[1] Standing Senate Committee on Transportation and Communications, *The Future of Canadian Air Travel: Toll Booth or Spark Plug?, June 2012.*

[2] VIA Rail, Annual Report 2014, p. 9.

III. INCREASE SUPPORT FOR THE INTERNATIONALIZATION OF BUSINESSES

The Board welcomes the launch of CanExport, which will provide $50 million over five years in direct support to small and medium-sized enterprises (SMEs) in Canada seeking to develop new export opportunities and become more competitive.

The Board recommends that the government:

3.1 Double funding for CanExport and make it available as of this year so that our SMEs can take advantage of these funds as soon as possible.

3.2 Encourage Export and Development Canada to facilitate access to insurance for companies' initial contracts or for all of their overseas transactions, and evaluate risks based on project planning rather than destination. This is vital to facilitating international business transactions and increasing business activities overseas.

IV IMPROVE THE COMPETITIVENESS OF THE TAX SYSTEM

The Board welcomes the government's announcement that it will reinstate the tax credit for labour-sponsored funds, which will stimulate investment and innovation. However, the Board is worried about plans to centralize the regulation of capital markets. This initiative would have a negative impact on the financial sector, which accounts for close to 100,000 jobs and 3,000 companies in metropolitan Montreal.

That being said, Canada, and Quebec in particular, must deal with a rapidly aging population and low productivity as well as reduced private investment. In such an environment, the government must ensure that any changes to the tax regime help to attract talent, investment and business. It must rely more heavily on rate setting and sales tax, and reduce personal and corporate taxes and payroll taxes in order to boost employment, investment and productivity. The Board supports the decision to reduce the second middle-class income bracket from 22% to 20.5%.

The Board recommends that the government:

4.1 Finance the tax cut for the middle class by reviewing tax expenditures by individuals or increasing consumption taxes and rates. These measures have a less negative impact on wealth creation than increasing tax rates. The Board has already stated that it disagrees with the government's decision to increase the personal income tax rate for high-income earners. This measure increases the maximum federal-provincial marginal tax rate to 53.3% from 49.97%, crossing the psychological threshold of 50%.[3] It will also make it more difficult to attract talent and investment and to encourage businesses to establish head offices.

[3] Research Chair in Taxation and Public Finance. *La mise en place de certaines promesses fiscales fédérales. Quelles sont les principales incidences fiscales et financières au Québec?*, December 2016.

4.2 Review tax expenditures to make them more effective. The government has already examined corporate tax support as part of a study on support for innovation.[4] We recommend that the government take further steps and focus more on funding to bring new products and processes to market.

V. DEMONSTRATE STRINGENCY IN BUDGET PLANNING

Current economic conditions have led to a decrease in the planned budget surplus. Spending on infrastructure and in other areas is required to stimulate the economy. That being said, the government must still demonstrate stringency to reassure investors and support the business environment.

The Board recommends that the government:

5.1 – Adhere to its plan to balance the budget by 2019–2020 and update interim annual deficit targets.

5.2 – Maintain its commitment to reduce the gross debt-to-GDP ratio to 25% by 2020–2021.

5.3 – Ensure some financial flexibility by maintaining at least $3 billion in reserve to provide for unforeseen circumstances, as previous governments have done.

5.4 – Maintain the set of provincial transfers, review health transfers and switch from per capita funding to funding based on age structure, which varies from province to province.

5.5 – Reverse plans to increase pension contributions and benefits (CPP). Although this increase would not directly affect Quebec, it would put pressure on the Quebec government to increase its contributions and could increase the tax burden on Quebeckers.

Conclusion

Given the uncertain economic climate, strategic investments must be made to strengthen Canada's economy and that of metropolitan Montreal. As a first step, the government must quickly confirm that it will provide US$1 billion in funding for Bombardier to complete one of the most ambitious and commercially innovative projects in Canada. In addition, the government must accelerate strategic infrastructure funding in Montreal and provide increased funding to companies with activities outside the country so that they can take advantage of the lower Canadian dollar and the strength of the U.S. economy, and thereby increase their market share in the U.S.

To revive the Canadian economy, the government must focus on a more competitive tax regime. It must abandon plans to increase the personal income tax rate for high-income individuals. A more competitive tax system and adherence to the plan to restore a balanced budget in 2019–2020 will improve the business environment and stimulate private investment and economic growth.

[4] *Review of Federal Support to Research and Development – Expert Panel Report*, October 2011.