Board of Trade of Metropolitan Montreal

Recommendations of the Board of Trade of Metropolitan Montreal

to the Government of Canada

with respect to the 2017 Federal Budget

August 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 prosperity of businesses and the city. 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 Board's pre-budget recommendations are being made in a fragile economic context seven years after the depths of the "great recession". We would like to remind the committee that periods of economic growth in Canada last six and a half years on average. It would be prudent for the Government of Canada to ensure that it has adequate room to deal with future economic shocks.

Weak commodity prices, the impact of China's economic transition and, more recently, concerns about Brexit are some of the factors weighing on Canada's economic outlook. Furthermore, Canadians' large debt load increases the vulnerability of households and limits opportunities to stimulate demand through consumer spending.

This difficult situation would normally be offset by the beneficial effects of a strong U.S. economy and lower Canadian dollar. Historically, trade with the U.S. is one of the main engines of Canada's economic growth. A robust U.S. economy usually results in an increase in Canadian exports, additional investments to grow the production capability of Canadian businesses, and greater job creation. This virtuous cycle should already be in progress. However, exports, private investment and job creation have yet to materialize.

With that in mind, the Board is asking the government to implement measures to increase exports and private investment. Furthermore, in today's context, where Canada's economy is progressively shifting towards non-resource sectors, it is vital that the government pay particular attention to metropolitan areas. More specifically, we recommend that the government focus on five areas of action:

1) Support private investment and innovation;
2) Encourage globalization of businesses;
3) Accelerate strategic investments in infrastructure;
4) Improve competitiveness of the tax system;
5) Establish and follow a plan to balance the budget.

In addition to these five areas of action, the Board is asking the government to uphold the principle of federalism and thereby:

- abandon the plan to establish a national securities regulator in order to avoid undermining Montreal's financial sector and businesses. The current passport system is working well and reflects the foundations of the Canadian federation.
- respect provincial jurisdiction for carbon pricing. Quebec and California have already put in place a carbon market that is working well. Ontario has joined this market and more U.S. states are considering joining. Efforts made by the provinces must be recognized and the government must avoid duplicating or centralizing efforts in this regard.

I. SUPPORT PRIVATE INVESTMENT AND INNOVATION

A. Immediately confirm the strategic investment to support Bombardier

The Government of Quebec has confirmed its US$1 billion investment to support Bombardier's C Series Program. However, Bombardier is still waiting for the federal government's decision. This is a unique opportunity for the federal government to invest in a major innovative project that will help redefine this sector abroad.

We would like to remind the government that Bombardier is a strategic player in Canada's aerospace cluster, which is concentrated primarily in metropolitan Montreal. This cluster employs some 41,750 Quebec workers and accounts for 55% of the Canadian workforce in this sector.

Furthermore, Bombardier is in a better position today and is beginning to have some success as indicated by the 370 orders for its new commercial aircraft. Swiss, Air Canada and Delta Air Lines are some of its clients.

The Board is calling on the federal government to confirm its US$1 billion investment in the C Series Program.

B. Strengthen Research and Innovation

The sustainability and development of businesses is increasingly dependent on innovation. Innovative businesses are the most likely to create high value-added activities and jobs that benefit our economy.

The Board recommends that the government:

- provide stable and predictable funding to the three federal research granting agencies and the Canadian Foundation for Innovation;
- continue to invest in leading-edge research infrastructure;
- re-examine the R&D tax credit and strike a better balance between direct and indirect assistance in order to improve the benefits of this support.

II. ENCOURAGE THE INTERNATIONALIZATION OF BUSINESSES

With the strength of the American economy together and a weaker dollar, the increase in exports should be one of the main sources of growth for our economy. Therefore, it is vital that we put in place measures to facilitate the internationalization of businesses.

The Board recommends that the government:

- ratify as soon as possible the Comprehensive Economic and Trade Agreement (CETA) with the European Union and the Trans-Pacific Partnership. In the specific case of CETA, the government must ensure that it maintains preferential access to the market of the United Kingdom, which is Canada's third largest trading partner, after it leaves the European Union. It must also enter into agreements with strategic trade partners such as India;
- double funding for CanExport and make funding available this year so that our SMEs can take advantage of these funds as soon as possible;
- work with World Trade Centers in major Canadian cities. These organizations are active on the ground and have the specific mandate of guiding SMEs in export markets, which directly complements the actions of the Government of Canada.

III. EXPEDITE STRATEGIC INVESTMENTS IN INFRASTRUCTURE

The state of infrastructure is a major concern for the business community. Transportation infrastructure faces the most pressing problems. Montreal, in particular, has major traffic congestion problems and costs are estimated at $1.8 billion.[1] These investments will improve the productivity of Canada's economy.

The Board recommends that the government:

- continue initiatives to improve public transit and facilitate better movement of people and goods. We are asking the government to confirm its commitment to disbursing $1.25 billion to build the Réseau électrique métropolitain (REM);
- 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. The government must identify the amount it will invest and adopt a harmonized strategy with the different levels of government concerned;
- fund a major investment plan for information technologies in order to improve competitiveness and productivity of the Canadian economy, especially its job-creating small and medium-sized businesses;
- reduce the rent paid by major Canadian airports, including the Montreal airport. High rents increase air transportation costs and hurt the competitiveness of our airports. A rent reduction would make it possible for our airports to reduce the fees charged to air carriers that are then passed on to Canadians, and would make available funds that could be reinvested in our airports.

[1] Quebec Ministry of Transportation, 2013.

IV. IMPROVE THE COMPETITIVENESS OF THE TAX SYSTEM

More efficient and effective taxation supports private investment, improves productivity and competitiveness, and attracts talented workers and encourages their work. It is a critical economic lever in this current context of weak economic growth, chronic weakness of our businesses' productivity, and a rapidly aging population.

The Board recommends that the government:

- review the tax mix in order to increase the use of tools that have a less negative impact on Canada's economy and the Montreal metropolitan area. A number of experts indicated the pertinence of such an approach and, more recently, this was pointed out in the OECD report on Canada's economy.[2] We invite the government to make greater use of the sales tax and tariffs. We also urge the government to lower payroll taxes and personal and corporate income tax because these measures in their current form hinder the attraction and retention of talent, investment and the establishment of corporate headquarters;
- honour its commitment to review tax expenditures and to ensure that any tax assistance given is predictable, targeted and adapted to the needs of the sectors and businesses. It must also implement a mechanism for the ongoing assessment of all government assistance measures.

V. ESTABLISH AND FOLLOW A PLAN TO BALANCE THE BUDGET

Canada's capacity to grow and to be ready to deal with a new economic storm depends in part on the state of its public finances. Although the business community supported increasing infrastructure expenditures to strengthen the economy, it continues to call for a clear and credible plan to balance the budget in order to reassure investors and financial institutions. To that end, the Board recommends that the government:

- establish a plan to balance the budget by setting interim annual targets, which will reassure investors and financial institutions;
- continue with its strategy to reduce the gross debt-to-GDP ratio;
- maintain a contingency reserve of between $3 billion and $6 billion;
- maintain the set of provincial transfers, review health transfers and switch from per capita funding to funding based on age structure.

Conclusion

[2] OECD. Economic Survey of Canada 2016.

The Government of Canada must ensure that it grows exports and private investment, which are levers of economic growth. To that end, it must put in place measures to stimulate innovation and exports, accelerate infrastructure investments, and ensure that taxation is more conducive to employment, productivity and investment.