



CPQ's comments on the 2017-2018 federal budget

- October 2016 -



The CPQ strives to ensure that businesses in Quebec enjoy the best possible conditions – particularly in terms of human capital – for sustainable prosperity in a context of global competition.

The CPQ is the focal point for employer solidarity. Its leadership makes it an indispensable benchmark in its areas of intervention, and it exerts substantial constructive influence in favour of a more prosperous society in which entrepreneurship, productivity, wealth creation and sustainable development are the prerequisites for raising the standard of living for the entire population.

In these comments, the CPQ basically responds to the following question, which was asked by the Finance Committee:

“What federal actions would assist Canada’s businesses – in all regions and sectors – meet their expansion, innovation and prosperity goals, and thereby contribute to economic growth in the country?”

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Competitiveness of businesses

The health of the Canadian economy depends on the competitiveness of its businesses. Businesses and employers are key partners in ensuring prosperity for all Canadians. Canada needs to maintain an attractive business environment from a tax and regulations perspective, particularly when it comes to timeframes for project approval and authorization.

Innovation, human capital and public and private investment are key to building a strong and sustainable Canadian economy. More efforts are needed to improve productivity, marketing and exporting.

In addition to supporting emerging sectors (clean technology, etc.), the government must also support our traditional sectors, including the manufacturing sector, and encourage investments that will re-launch certain critical sectors, including the aerospace industry. Direct and indirect spin-offs from the processing sector exceed those of all of the other sectors, adding that much more value to the economy. Measures also need to be put in place to encourage the responsible development and transport of our natural resources.

As well, it is important to ensure that the Canada-wide system of carbon pricing announced by the federal government in October reflects in the long term the unique features of Quebec's existing carbon market, the cap-and-trade system for greenhouse gas emission allowances.

With regard to ethics, the CPQ has noticed that, when it comes to implementing legislative or other initiatives to ensure that businesses use ethical practices, some countries, including the United Kingdom, are relying on deferred prosecution agreements. The advantage of this way of doing things is that it eases the burden on the justice system and encourages self-reporting and compliance without penalizing employees and company shareholders.

The aerospace industry

The CPQ is still waiting for a clear signal from the federal government as to whether it intends to support the aerospace industry, specifically by providing support to Bombardier as the Government of Quebec did. Let us remember that this Quebec company alone contributes \$12.4 billion to Canada's GDP (0.7%), supports over 60,000 jobs and generates nearly \$1.3 billion in tax revenue.

The aerospace industry is critical to Canada's prosperity and global competitiveness, and Bombardier is the cornerstone of that industry. Investments in this flagship company are just as necessary as the 2009 bail-out of the auto industry. The federal government's support must therefore be strategic if the C Series structuring project is ever to really get off the ground. Investing in Bombardier would be a way to provide returns on significant investments in aerospace research and development.

Support for businesses

The government should invest in programs that exert structural leverage on productivity, innovation, marketing and reduction of the environmental footprint of companies. For example, the CPQ believes that it would be worthwhile to provide refundable R&D tax credits to large corporations, and the Industrial Technologies Office (ITO) could support strategic Canadian research and development and manufacturing innovation programs.

Investments in infrastructure

The CPQ is pleased that the federal government intends to invest in infrastructure and invites it to do so as strategically and effectively as possible, specifically by investing in Quebec's ports and logistical hubs, as well as in foundation public transportation projects. The CPQ would also like the federal government to round out the funding needed for a major project that will benefit the City of Montreal and our entire economy, for example, the electric light rail transit system proposed by the Caisse de dépôt et placement du Québec.

In the second phase of reinvesting in strategic infrastructure, it would also be good to think in terms of future needs, new technological realities, digital infrastructure needs and environmental considerations, such as the contribution of logistics chains to the reduction of greenhouse gases.

Another investment that would help improve the vitality of the Canadian economy and increase mobility is a high-speed rail link between Quebec City, Montreal, Ottawa and Toronto.

Finally, the CPQ would like future investments to be made without any undue delay.

Sound public finances

Despite the above considerations, the CPQ would like to remind the government of the importance of avoiding structural deficits. Instead, it should focus on policies designed to leave future generations a prosperous country in good financial health. A clear financial plan to return to a balanced budget over the next few years is very important, as is the financial security of future generations. We must not burden them with extra taxes so that we can have services now.

That is also why the CPQ would like to see measures focused on increased private investment rather than on government spending.

The CPQ invites the government to give serious consideration to the health transfers and the *Canada Health Act*, in cooperation with the provinces. We believe that the plan to tie the transfers to the growth of the GDP will not be sufficient to meet the needs of the aging population in Canada and Quebec in particular.

When it comes to revenue, we think it is essential to adapt to new trade-related technologies and to deal with the issue of online sales depriving the federal and provincial governments of tax revenues and negatively affecting the competitiveness of Canadian businesses. The government needs to study this problem and find a realistic way of introducing new legislation or amending existing legislation to make online and physical sales more equitable.

The CPQ also invites the federal government to look at the possibility of combining the Canada Revenue Agency with Revenu Québec, which would most likely reduce operating costs.

Finally, the CPQ would like to reiterate how important it is for the federal government to step up its efforts to more effectively combat the smuggling of tobacco products in Canada and ensure that tax levels are predictable. The government must also carefully assess the impact of plain packaging for tobacco products, particularly in light of other countries' experiences, and it must be sure to take into account trade mark and intellectual property considerations.

Free trade

The CPQ encourages the Government of Canada to continue its efforts to promote free trade with other countries, particularly with regard to the ratification of the Comprehensive Economic and Trade Agreement with the European Union. We cannot jeopardize seven years of work. The agreement does not need to be changed because the United Kingdom is leaving the European Union, and efforts must be made to show confidence in times of market uncertainty. The European Union is a market of a billion consumers in economies dealing with relatively similar socio-demographic and economic issues. The federal government must launch a diplomatic offensive in order to ensure that the planned ratification schedule is followed.

It is important to carefully prepare our businesses, through training and information, so that they can benefit from the new business opportunities that will be available to them with the opening of new markets.

The CPQ also expects the government to be more active on other international economic issues, such as the softwood lumber issue. It is important that the federal government support our businesses should a new softwood lumber dispute arise with the United States by providing loan guarantees during the dispute, for example, so that Canadian businesses can cope and maintain jobs.

Temporary foreign workers

Although the objective of the temporary foreign worker program is commendable, it could, under the existing terms and conditions, have a negative impact on many employers with real recruitment problems. Delays and unpredictability are two problems that pose a major obstacle to businesses winning contracts and maintaining Canadian jobs. The CPQ would like to see more flexible rules so that the skilled and less skilled temporary foreign workers that businesses need can come to Canada.

Retirement savings

The CPQ is in favour of encouraging people to save for their retirement. However, it would like to remind the government that, Canada ranks fairly high internationally in terms of retirement savings and there are a number of savings options available, such as real estate investment, TFSAs, RRSPs and even VRSPs, which are beginning to appear in Quebec. What is more, efforts to educate the Canadians about their finances could make more people aware of their situation, the options available to them and the need to save for retirement. Given the aging population, it is also a good idea to encourage people to work longer.

In that regard, it is important to remember that the government's decision to change the retirement age from 67 back to 65 goes against the trend in other countries.

Employment insurance and labour force training

In the last budget, the government announced improvements to the employment insurance program. More specifically, it indicated that, as of 2017, it would reduce the waiting period for receiving EI benefits. However, the waiting period is like the deductible on an insurance policy. The CPQ would like to point out that it is important to take into account the costs of this change. The CPQ believes that the employment insurance program should strive to strike a balance between compensation for people who lose their jobs and incentives to work.

On another note, the CPQ believes that introducing an employment insurance contributions credit for training expenses, especially expenditures on formal training when new investments are set up, is another way that the employment insurance program can help to maintain and create jobs. The CPQ does not believe that eligibility for labour market development agreements should be expanded, since this would involve additional employee and employer contributions. What is more, the provinces, particularly Quebec, must continue to be responsible for managing labour training programs with proper accountability.

The CPQ would also like to make the Government of Canada aware of the importance of investing more in training programs led by the provinces and territories to help people who are not eligible for employment insurance and who are currently out of work.

Airports

The situation of the airports is another structural problem that needs examining. The current situation puts Canadian airports at a clear disadvantage, particularly because of the various charges being imposed, and stiff American competition weighs heavy on the Canadian economy, even though the problem has improved somewhat as a result of the low Canadian dollar. According to a Senate report, high costs and inefficiencies are deterring demand for air travel and discouraging competition in the industry. The federal government should stop treating airports as a source of public revenue and start treating them as economic spark plugs. To this end, it should stop charging airports ground rent and transfer them to the authorities that already operate them.

Other considerations

The CPQ encourages the government to implement its promise to eliminate the GST on new capital expenditures on rental housing and to modernize the home buyers' plan. These measures would surely have a positive impact on the Canada's economy and the quality of life of Canadians. The CPQ also urges the government to avoid imposing restrictive pan-Canadian home ownership measures since the situation and realities vary from province to province.



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