CHAMBRE DE COMMERCE
DU MONTRÉAL MÉTROPOLITAIN
BOARD OF TRADE OF METROPOLITAN MONTREAL

Recommendations of the Board of Trade of Metropolitan Montreal to the Government of Canada for the 2016-2017 federal budget

February 2016

Preamble

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

Introduction

The business community's recommendations for the development of the Government of Canada's next budget come at a difficult time for the economy.

The persistent, marked weakness in the price of oil continues to weigh on the Canadian economy and public finances. The situation has led the Bank of Canada to drop its key interest rate, just as the American Federal Reserve has raised its rate. This decline in the price of oil, combined with the gap in interest rates, has resulted in a depreciation of the loonie, which should have led to a much larger increase in exports that we have seen to this point. Furthermore, the drop in the Canadian dollar could result in a reduction in investments in equipment – which is generally imported and paid for in American dollars – at a time when Canadian companies are already seriously lagging in productivity.

This is in addition to an across-the-board decline in the price of other natural resources, in large part caused by slower economic growth in emerging countries and China shifting toward a more service-based economy.

Our most important trading partner, the U.S., which is seeing sustained economic growth, is the bright point in this rather gloomy picture. The outlook for the American economy is sufficiently positive that we can expect a knock-on effect for the Canadian economy.

This precarious, uncertain economic climate undermines the business environment and private investment across Canada, particularly in Greater Montréal.

The Montréal area accounts for 10% of the country's economy. It has highly skilled labour, an entrepreneurial drive that is regaining steam, mature businesses that compete on global markets and a business base determined to grow its international market share. Canada's economic performance is largely based on that of its major cities, and Montréal's businesses have assets the government should leverage.

This is why the Board of Trade calls on the federal government to show leadership and take advantage of the relatively solid state of federal public finances to make strategic investments while improving the business environment to support corporate investment and stimulate exports.

To this end, the Board of Trade's recommendations are as follows.

1. Immediately confirm major strategic support of US$1 billion to Bombardier so that it can complete one of the most ambitious projects in commercial innovation in Canada and foster the development of the Canadian aerospace cluster.
2. Beginning in 2016-2017, make strategic investments in infrastructures to stimulate economic growth and improve business productivity.
3. Grant increased support for the internationalization of businesses.
4. Increase the competitiveness of taxation to foster work, productivity and investment.
5. Show prudence in budget planning to balance the budget as scheduled by 2019-2020.

I. SHOW LEADERSHIP AND IMMEDIATELY CONFIRM STRATEGIC SUPPORT OF US$1 BILLION TO BOMBARDIER

Bombardier is a strategic player in the aerospace cluster in Canada, which is concentrated in Greater Montréal. The cluster has around 41,750 workers in Quebec, representing 55% of the Canadian sector's workforce. The government needs to support the innovative activities of this flagship of Quebec business by financing the final phase of the C Series. Echoing the convictions of business community, the Board of Trade urges the Government of Canada to show economic leadership and grant financial aid to Bombardier in the amount of US$1 billion, matching the Government of Quebec's investment. It is in the interest of all of Canada to see this flagship of Canadian entrepreneurship complete one of the most ambitious projects in commercial innovation in recent decades. It would be catastrophic for the Montréal area and for Canada as a whole to let Bombardier falter when success is within reach.

Recommendation no. 1: Support Bombardier

The Government of Canada must show economic leadership and grant financial aid to Bombardier in the amount of US$1 billion, matching the Government of Quebec's investment. This investment is essential to complete one of the most ambitious projects in commercial innovation in Canada and to promote the development of the Canadian aerospace cluster.

II. BEGINNING IN 2016-2017, MAKE STRATEGIC INVESTMENTS IN INFRASTRUCTURE TO STIMULATE ECONOMIC GROWTH AND INCREASE BUSINESS PRODUCTIVITY

The state of infrastructure is a major concern for businesses and workers in Greater Montréal. The most glaring problems concern transportation infrastructure. The city is suffering from major traffic problems that are undermining its productivity and economic performance. The cost of this traffic congestion is an estimated $1.8 billion.[1] According to a 2012 study by the Board of Trade,[2] the decision of businesses to invest is largely based on having efficient, secure and functional infrastructures. Investments in public transit are particularly strategic.

In light of these findings, the federal government must take the following measures.

2.1 Honour its commitment to increase infrastructure investments by $60 billion beginning in 2016-2017 – Infrastructure investments stimulate the economy, improve the circulation of people and merchandise in the longer term and increase business productivity. In a context of weak economic growth and glaring needs in infrastructure, such investments are strategic. We encourage the government to make reinvestments in primary and secondary schools eligible to make up the major maintenance deficits they suffer from, which undermine success in school and our education system's performance.

[1] MINISTÈRE DES TRANSPORTS DU QUÉBEC, 2013.

[2] BOARD OF TRADE OF METROPOLITAN MONTREAL. June 2012. *Competitiveness of the Greater Montréal Business Environment*

2.2 Move ahead with creating the Canada Infrastructure Bank to ensure the availability of the funds necessary to complete strategic infrastructure projects – The Board of Trade supports the initiative to create the Canada Infrastructure Bank. But it reiterates that it must be the result of an optimization of financial resources and have the expertise and resources required to respond to the needs of provinces and municipalities.

2.3 Reinitiate work around the Ontario-Quebec Continental Gateway and Trade Corridor by injecting similar amounts to those granted to the Asia-Pacific Continental Gateway and Corridor – The Board of Trade asks the government to indicate in the next budget the amount required to reinitiate work for the Ontario-Quebec Continental Gateway and Trade Corridor, to increase the competitiveness of our port infrastructures and strengthen the city's transportation and logistics industry. The federal government invested around $1 billion in the Asia-Pacific Continental Gateway and Corridor initiative, in some 50 strategic infrastructure projects valued at more than $3.5 billion.

2.4 Invest in developing the Port of Montreal – The Iberville Terminal and the Alexandra Pier cannot accommodate large cruise ships. The facilities are obsolete, preventing us from instituting a strategy to attract new cruises to take advantage of the global increase in the volume of cruise passengers. The Government of Quebec, the Ville de Montréal and the Port Authority of Montreal together have committed to investing around $52 million in a new passenger terminal, and yet this sort of infrastructure is under federal jurisdiction. We ask the federal government to contribute the additional $26 million to complete this project.

2.5 Reduce rent at Montréal-Trudeau Airport – Airport infrastructures are an essential economic driver for Montréal, as for all major cities in Canada. They promote business, trade and tourism, contributing to the competitiveness of the Canadian business environment. In the case of Montréal-Trudeau Airport, the high rent the Government of Canada charges Aéroports de Montréal increases the cost of air transportation and compromises its competitiveness. This results in a high number of Canadian travellers who cross the border to take advantage of lower fares at border American airports. According to a report by the Standing Senate Committee on Transport and Communications,[3] 85% of passengers at Plattsburgh International Airport, located one hour south of Montréal, come from Canada. The Board of Trade asks the Government of Canada to see Canadian airports as economic drivers in their own right and not as a source of revenue.

2.6 Make building reserved tracks for passenger trains along the Montréal-Toronto corridor a priority – The Montréal-Ottawa-Toronto rail corridor is the most travelled in Canada, accounting for 55% of train trips in the country. Plans for a Québec City-Windsor high-speed train (HST), which would include stops in Montréal, Ottawa and Toronto, have been under consideration for many years by different levels of government. Implementing this project, evaluated at $20 billion in 2009, would take 14 years. In 2015, VIA Rail also submitted an implementation plan for a high-frequency train (HFT)[4] along the Montréal-Ottawa-Toronto corridor Building an HFT would cost an estimated $4 billion and take four years.

In a context of massive infrastructure investments, it is time for the government to properly study the feasibility of these projects and come to a decision. Reserved tracks for passenger transportation would permit a significant increase in the frequency, reliability and speed of travel,

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[3] THE STANDING SENATE COMMITTEE ON TRANSPORT AND COMMUNICATIONS. June 2012. *The Future of Canadian Air Travel: Toll Booth or Spark Plug?*

[4] VIA RAIL. 2014 Annual Report, p. 9.

converting more drivers to train users. This would also reduce our environmental footprint, particularly if electric trains were introduced.

Recommendation no. 2: Invest in infrastructure

- **Honour its commitment to invest $60 billion in strategic infrastructure over the next ten years.**
- **Create the Canada Infrastructure Bank. It must result from an optimization of financial resources and have the expertise and resources to meet the needs of the provinces and municipalities.**
- **Reinitiate work surrounding the Ontario-Quebec Continental Gateway and Trade Corridor by injecting a similar amount to that granted for the Asia-Pacific Continental Gateway and Corridor.**
- **Invest in developing the Port of Montreal. The government must contribute the $26 million required to complete the project.**
- **Reduce rent at Montréal-Trudeau Airport**.
- **Make building reserved tracks for passenger trains along the Montréal-Toronto Corridor a priority.**

III. GRANT INCREASED SUPPORT FOR THE INTERNATIONALIZATION OF BUSINESSES

Increased household debt, weak investment and a precarious economy in certain regions of Canada mean that hopes of stronger economic growth lie more with net exports. Plus the depreciation of the loonie combined with more solid American growth offer businesses an opportunity to increase their exports, particularly to our main trading partner. The government has to put in place initiatives to encourage businesses to break into international markets.

This is why the Board of Trade welcomes the launch of the CanExport program, which will offer direct financial aid of $50 million over five years to small and medium-sized enterprises (SME) seeking to take advantage of export opportunities on global markets and increase their competitiveness. We ask that the government double the amount for CanExport and make it available starting this year so that local SMEs can start taking advantage of it right away.

The government must also facilitate international business transactions by insuring strategic projects at the business level. Export and Development Canada (EDC) is an important resource to support SMEs with international plans and to help diversify markets. SMEs can experience difficulties getting insurance for projects in promising but untraditional markets. Society has to offer easier access to insurance for businesses' first contracts or transactions abroad, and evaluate risks based on how the projects are put together, not solely based on destination.

Recommendation no. 3: Internationalize Canadian businesses

- **Double the amount for the CanExport program and make it available beginning this year so that SMEs can take advantage of it sooner.**
- **Encourage EDC to facilitate access to insurance to protect companies' first contracts or transactions abroad, and evaluate the risks based on how projects are put together, and not solely based on destination.**

IV. INCREASE THE COMPETITIVENESS OF TAXATION TO PROMOTE WORK, PRODUCTIVITY AND INVESTMENT

The Board of Trade applauds the government's announcement to reinstitute the federal tax credit for contributions to labour-sponsored funds. This is good news for the economy of Quebec and Montréal. Reinstituting this credit will stimulate investment and innovation. However, the Board of Trade worries about the government's intention to pursue centralized regulation of capital markets. This would undermine the financial sector and businesses in Greater Montréal and would weaken the second most important financial centre in Canada. This sector represents almost 100,000 jobs and 3000 businesses in the city.

That said, Canada, and particularly Quebec, has to deal with a rapidly aging population and structurally low productivity compared with the American economy. This is in addition to a decline in private investment. All of these factors undermine our competitiveness and economic growth. In such a context, taxation is a strategic tool for economic development. The government must therefore ensure that any change to the tax system helps attract talent, investment and businesses. In this respect, we recommend that the government use tools that are less economically harmful. Therefore it must:

- Use fees and sales tax to better finance public services, since these tools are less harmful for economic growth than personal and corporate income tax;
- Reduce personal and corporate income tax. High personal tax rates discourage work and effort. They also make it harder to attract and retain talent, particularly the most qualified individuals who earn high incomes and are the most mobile. Furthermore, payroll taxes discourage hiring and salary increases, thereby undermining job creation, disposable income and the attraction of qualified workers.

As a result, the Board of Trade supports the government's decision to reduce income tax for the middle class from 22% to 20.5% for the second income tax bracket. This decision will encourage work. However, the business community has already expressed its disagreement with the decision to increase taxes for high-income earners, particularly by adding a fifth tax bracket of 33% for those whose income is higher than $200,000. This measure brings the federal-Quebec maximum marginal tax rate from 49.97% to 53.3%, breaking the psychological barrier of 50%.[5] This will have a negative effect on attracting talent, investment and head offices.

The Board of Trade also supports the principle of reviewing tax expenditures to eliminate those that are inefficient and less targeted. With respect to tax spending for companies, the government has

[5] CHAIRE EN FISCALITÉ ET EN FINANCES PUBLIQUES. *La mise en place de certaines promesses fiscales fédérales. Quelles sont les principales incidences fiscales et financières au Québec?*, December 2016.

already done a review, in particular of tax assistance to support innovation,[6] following the publication of a report by an expert panel mandated to study federal support to R&D (October 2011). We encourage the government to go further and direct financing more toward commercialization. As part of this exercise, the government should ensure strategic sectors are strengthened and take into consideration global competition to attract and retain businesses, to maintain our competitiveness internationally. We cannot forget that Greater Montréal's economic development is based on high-value-added sectors, for example video games, aerospace and life sciences.

The government must therefore ensure that tax assistance is effective, adapted to the needs of businesses and evaluated periodically. It must also be targeted by relying more on support to sectors that generate high-value-added activities that foster productivity and that are sensitive to international competition and strengthening competitiveness on the international scene.

Recommendation no. 4: Improve the tax system

- **Fund tax cuts for the middle class by reviewing personal tax expenditures or increasing consumption taxes and fees. These measures have a more limited negative impact on wealth creation than a tax hike. The Board of Trade has already expressed its disagreement with the government's decision to increase taxes for high-income earners.**
- **Do not increase corporate income tax and payroll tax.**
- **Ensure that tax assistance granted to businesses is predictable, targeted and adapted to the needs of sectors and companies, and evaluate it periodically.**

V. BE VIGILANT IN BUDGET PLANNING AND STAY THE COURSE TO BALANCE THE BUDGET IN 2019-2020

The global economy and the decline in the price of resources have weakened economic growth, resulting in an annual average reduction of $6 billion in the projected budgetary balance. In its update to economic and budget projections for 2015, the government is now anticipating deficits of $3 billion in 2015-2016, $3.9 billion in 2016-2017, $2.4 billion in 2017-2018, and $1.4 billion in 2018-2019, and a surplus of $1.7 billion in 2019-2020.

Of course, given the current context of weak economic growth, investments, particularly in infrastructure, are necessary, what with the need to modernize assets and the stimulation effect they can have on productivity and economic growth. That said, it is essential that the government follow its plan to balance the budget on schedule. The Board of Trade calls on it to reach zero deficit in 2019-2020 and to update the intermediary targets of annual deficits. It also has to keep its commitment to reduce gross debt to GDP to 25% by 2020-2021.

[6] Report of the expert panel for the Review of Federal Support to Research and Development, October 2011.

Furthermore, sound management of public finances also means having the budget leeway to deal with the unexpected, thereby limit overspending. The last budget, the recent update of economic projections and the persistent uncertainty around the economic outlook reinforce the importance of having this safety cushion. The Board of Trade calls on the government to create financial leeway of at least $3 billion, as past governments have historically done to be prepared for the unexpected.

Finally, in its plan to balance the budget, the Government of Canada must ensure that Quebec and Montréal continue to be attractive and that they have the means to handle the challenges of public finances and an aging population. To do this, it must maintain all of its transfers. For health transfers, the Board of Trade asks the government to review its financing and move from financing per person to financing based on age structure, which is different province to province.

The government also needs to reconsider increasing pension contributions and benefits (PCB). While the increase will not directly affect Quebec, it could put pressure on the provincial government to increase its contributions to the pension plan. Such an initiative would increase the tax burden of companies and individuals, when Quebecers are already the most heavily taxed people in North America.

Recommendation no. 5: Balance the budget on schedule

- **Honour its commitment to reduce gross debt to GDP to 25% by 2020-2021.**
- **Create financial leeway of at least $3 billion, as previous governments have done historically, to deal with the unexpected.**
- **Not reduce transfers to provinces to balance the budget. Review health transfers and switch from provincial financing per person to a method of financing that takes into account demographic changes. This new method of financing must also reflect the fact that Quebec – where the percentage of the population 65 and older is larger than in other provinces, including Alberta and Ontario – has higher health care costs.**
- **Not increase pension contributions and benefits.**

Conclusion

The precarious economic situation, the persistent weakness in the price of resources and relatively solid public finances indicate the need for the federal government to make strategic investments to strengthen the economy of Canada and Greater Montréal. To do this, the government must first quickly confirm its support in the amount of US$1 billion to Bombardier so that it can complete one of the most ambitious projects in commercial innovation in Canada and promote the growth of the Canadian aerospace cluster. Furthermore, the government must accelerate strategic investments in infrastructure in the city and grant increased support to companies with activities outside the country, so that they can benefit from the weak loonie and the strength of the American economy to increase their market share in the U.S.

To kick-start the economy, the government also needs to have more competitive taxation for companies and individuals, in other words a tax system that promotes work, productivity and investment. It needs to abandon the idea of increasing taxes for individuals in the top tax brackets. More competitive taxation and respecting the plan to balance the budget in 2019-2020 will improve the business environment and stimulate private investment and economic growth.

SUMMARY OF RECOMMENDATIONS OF THE BOARD OF TRADE OF METROPOLITAN MONTREAL

Recommendation no. 1: Support Bombardier

The Government of Canada must show economic leadership and grant financial aid to Bombardier in the amount of US$1 billion, matching the Government of Quebec's investment. This investment is essential to complete one of the most ambitious projects in commercial innovation in Canada and to promote the development of the Canadian aerospace cluster.

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Recommendation no. 3: Internationalize Canadian businesses

- Double the amount for the CanExport program and make it available beginning this year so that SMEs can take advantage of it sooner.
- Encourage EDC to facilitate access to insurance to protect companies' first contracts or transactions abroad, and evaluate the risks based on how projects are put together, and not solely based on destination.

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- Do not increase corporate income tax and payroll tax.

- Ensure that tax assistance granted to businesses is predictable, targeted and adapted to the needs of sectors and companies, and evaluate it periodically.

Recommendation no. 5: Balance the budget on schedule

- Honour its commitment to reduce gross debt to GDP to 25% by 2020-2021.
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- Not reduce transfers to provinces to balance the budget. Review health transfers and switch from provincial financing per person to a method of financing that takes into account demographic changes. This new method of financing must also reflect the fact that Quebec – where the percentage of the population 65 and older is larger than in other provinces, including Alberta and Ontario – has higher health care costs.
- Not increase pension contributions and benefits.