

**Recommendations from the Board of Trade of Metropolitan Montreal for
the Government of Canada's 2014-2015 pre-budget consultations**



January 2014

Preamble

The Board of Trade of Metropolitan Montreal has approximately 7,000 members. Its mission is to represent the interests of the business community of Greater Montréal and to provide individuals, merchants, and local businesses of all sizes with a variety of specialized services to help them achieve their full potential in terms of innovation, productivity, and competitiveness. The Board of Trade is Quebec's leading private economic development organization.

Context

In the process of preparing its budget for 2014-2015, the Government of Canada is holding consultations with the public and with socioeconomic stakeholders across the country to gather their concerns and recommendations.

To this end, the Board of Trade of Metropolitan Montreal submits to the federal government, each year, a series of pre-budget recommendations from the business community in Greater Montréal.

This brief presents the Board of Trade's pre-budget recommendations.

Introduction

The business community in Greater Montréal takes a keen interest in the federal government's budget. The government announces its major economic priorities and Canada's tax framework. These decisions will have a direct impact on the city's businesses and economic development.

We are pleased to note that despite problems in the world economy, Canada continues to outperform the other G7 countries in terms of job creation and growth of disposable income. Its credit rating and the reputation of its bank and financial system are widely envied.

The world economy remains fragile, however. Even though the economic outlook of our neighbours to the south is encouraging, the outlook in the Euro zone is mixed and the growth of the emerging nations, including China, is slackening. This could have negative repercussions on our economy, exacerbating the issues stemming from the structural challenges Canada is facing. The ageing of the population and poor business productivity, especially in Quebec and its largest city, continue to significantly impede our international competitiveness and growth.

The Board of Trade of Metropolitan Montreal therefore recommends that the Government of Canada hold firmly to its intention to achieve a balanced budget in the established time frame without increasing and, ideally, while decreasing the tax burden on taxpayers and businesses, to ensure increasingly competitive taxation. The Board of Trade is also asking the government to pay special attention to the economic development of the Montréal region.

Montréal is the second largest city in Canada: alone, it represents approximately 10% of Canada's economy and 50% of Quebec's. It is important to remember how crucial hub cities are for the development of their provinces¹ and for Canada as a whole. They attract talent and investment and they offer conditions conducive to the emergence of certain industrial clusters, especially the most innovative. Over the last year, however, Greater Montréal has begun to run out of steam. Its growth has been tepid and its unemployment rate high. The government absolutely needs to strengthen the competitiveness of the city's driver sectors and businesses, as well as invest in strategic infrastructure projects. By focusing on the development of Greater Montréal, the government will be supporting the growth of Quebec and of Canada as a whole.

Our recommendations aim to strengthen Canada's economy as well as the economy of the Montréal metropolitan region.

¹ CONFERENCE BOARD OF CANADA. July 2006. *Canada's Hub Cities: A Driving Force of the National Economy*.

RECOMMENDATIONS OF THE BOARD OF TRADE OF METROPOLITAN MONTREAL

I. Support the city's financial sector

A. Abandon the idea of a "cooperative" capital markets regulation system

The financial sector plays a strategic role in Montréal's economic development. Its growth rate is higher than other sectors, and it represents some 3,000 businesses and 100,000 jobs in the Montréal region.

The presence of a securities regulator in Montréal enriches the city's expertise in derivatives and its role as a centre of finance. It also offers a more effective response to local businesses and, by extension, provides better support for their growth.

The Board of Trade wants to reiterate that any initiative that centralizes securities regulation, especially headquartered in Toronto, will directly harm the economic development of Quebec and its largest city. The Board of Trade urges the government to abandon this initiative, which goes against the very spirit of the federation.

Recommendation 1: The Government of Canada should recognize that the existing passport system works well and reflects the foundations of the Canadian federation. It should also abandon the idea of the so-called "cooperative" capital markets regulatory system to avoid harming Montréal's financial sector and businesses.

B. Continue to support the venture capital industry in Quebec and its largest city

The venture capital industry is fundamental to the development of our economy. By supplying resources to the most promising and flourishing of growing small businesses, it strengthens innovation and the creation of quality jobs.

Quebec and Montréal are also leaders in terms of venture capital investment in Canada. In first quarter 2013,² Quebec accounted for nearly half of all such investments in the country. Greater Montréal accounted for 41% of all funds invested, a larger share than the other major Canadian regions.

When the 2013-2014 federal budget was tabled, the announcement that the tax credit for labour-sponsored funds would be eliminated was roundly decried by the business community in Greater Montréal. This move would weaken the city's industrial fabric and its most innovative businesses. Our labour-sponsored funds (Fonds de solidarité FTQ and Fondation CSN) are two important pillars of Quebec's and Montréal's financial ecosystem.³ They have clearly demonstrated their value: over \$2.3 billion has been invested directly by these funds in Montréal businesses, contributing to the creation or maintenance of over 35,000 jobs.

Since the government has decided to carry through on this decision, we are asking that it quickly set up in Quebec one of the new, large private sector-led national funds of funds announced in its venture capital action plan. This fund of funds should be based in Greater Montréal. As

² THOMSON REUTERS. August 2013. *Québec's venture capital market in Q2 2013*.

³ Board of Trade of Metropolitan Montreal. May 2013. *Report on the Importance of Labour-Sponsored Funds to the Economy of Metropolitan Montréal*.

Quebec and especially its largest city being the country's venture capital leaders, it makes perfect sense for one of these national funds of funds to be located there.

The government has also announced the creation of other private sector-led regional funds. We are asking the Government of Canada to immediately announce the creation of a \$120 million fund of funds in Quebec. For this purpose, the option of investing in existing funds, such as Teralys Capital, should be considered.

Recommendation 2: The government should establish one of the new, large private-sector led national funds of funds in Quebec. This fund of funds should be based in Greater Montréal. In the immediate term, we are asking the government to announce the establishment, in Quebec, of a large private sector-led regional fund of funds in the amount of \$120 million. For this purpose, the option of investing in existing funds, such as Teralys Capital, should be considered.

II. Continue to support businesses in international markets

To achieve long-term growth, it is crucial to support our businesses in the international markets and help them improve their competitiveness. Unfortunately, the economic slowdown of our main trade partners, combined with the poor productivity of our businesses, has weakened our trade balance and our economic growth. We therefore heartily approve the initiatives in the government's Global Markets Action Plan to support businesses in the global markets. We also urge the government to:

- **Step up its financial support for business mentoring and support organizations to encourage businesses – especially small businesses – to engage in international trade.** These organizations are closer to the businesses' needs and better able to inform and support them in their export efforts, in particular by offering strategic consulting, targeted training, and trade missions to high-potential countries. We firmly believe that these organizations – including the Board of Trade of Metropolitan Montreal's international trade team, the World Trade Centre Montréal – have a direct positive impact on the presence and performance of our businesses in international markets.
- **Pursue its trade policy of diversifying markets and facilitating trade agreements.** The Board of Trade applauds the conclusion of an agreement in principle on the Comprehensive Economic and Trade Agreement (CETA). It will help our businesses establish stronger links with global value chains and allow them to profit from the European Union, with its 500 million consumers and GDP of over \$17,000 billion. In this regard, the Board of Trade of Metropolitan Montreal's international trade team, the World Trade Centre Montréal, will continue to be an ideal partner for the government by assisting the city's businesses in their European export efforts. The Board of Trade also urges the government to pursue trade agreement negotiations with other promising regions, including China, India, Japan and South Korea, and to continue the trans-Pacific partnership negotiations.

Recommendation 3: The government should continue to support businesses in the international markets. It should:

- step up financial support for business mentoring and support organizations to encourage businesses – especially small businesses – to engage in international trade
- pursue its trade policy of diversifying markets and facilitating trade agreements

III. Leverage innovation, entrepreneurship, and the productivity of human capital to increase our competitiveness

To be competitive and enduring, our businesses need to be innovative and to have access to a qualified workforce that fulfils their needs, but Canada and Quebec are lagging in terms of business innovation in comparison to other developed countries. Furthermore, the relative decline in the pool of potential workers and the challenge of labour productivity mean that Montréal's businesses are having more and more trouble finding workers who are compatible with their needs. If nothing is done, this situation will further erode Canada's competitiveness and our collective standard of living.

A. Strengthen support for university research

Universities play a key role in scientific discoveries and innovation. They improve our international standing and foster the development of high value-added industries and good-quality jobs. By supporting university research, the government will improve our innovation performance.

Recommendation 4: The Board of Trade is asking the government to support university research:

- provide stable and predictable financing to the three federal research granting bodies and the Canadian Foundation for Innovation
- create a new research excellence fund to improve international competitiveness of Canadian research
- continue to invest in leading-edge research infrastructures
- encourage international partnerships, especially student exchanges
- improve collaboration between universities and businesses to foster knowledge transfer and the commercialization of innovations

B. Improve harmonization between training and business needs

The Board of Trade supports the general objective of the new Canada job grant, which is to establish a direct connection between skills training and employers. This initiative enlists the input of businesses and, by extension, fosters better alignment of training and jobs.

Nevertheless, this effort must respect provincial jurisdictions. We therefore urge the government to negotiate a new agreement with the provinces, especially Quebec, to ensure that this reform does not create pointless tension between the various levels of government.

Recommendation 5: The Government of Canada should negotiate a new agreement with the provinces, especially Quebec, to avoid having the new Canada job grant create pointless tension between the different levels of government and to respect the provinces' jurisdictions and expertise.

C. Encourage entrepreneurship and business development

Small businesses are the drivers of job creation. They single-handedly represent nearly 99% of all businesses and over 20% of GDP.

The government must continue to support businesses by making it easier for them to access financing. We also urge the government to pursue the implementation of initiatives to reduce administrative formalities for small businesses, thereby improving their productivity and competitiveness. With this in mind, we recommend that the federal government act on the recommendations of the Canadian Federation of Independent Business (CFIB) with regard to easing the administrative and regulatory burden on small businesses.

Recommendation 6: Continue to support businesses by making it easier for them to access financing. The government should also act on the recommendations of the Canadian Federation of Independent Business (CFIB) with regard to easing the administrative and regulatory burden on small businesses.

IV. Immediately launch structuring urban infrastructure projects for the city

The fluid movement of people and merchandise improves our productivity and attracts investment. The government should place priority on supporting structuring public infrastructure projects for our economy in the areas of road, sea, air and rail transportation and public transportation.

A. Invest in the city's port and marine development

Port and marine infrastructures are essential to enable and increase the transportation of goods and contribute to trade development. The government should:

- **Define the scope of a program to strengthen the Ontario-Quebec continental gateway and specify its budget parameters.** The continental gateway is a strategic initiative for international trade, because it offers direct access to the heart of the United States and constitutes a hub for trade with Europe. The government should make the required investments as soon as possible, to improve the competitiveness of our port infrastructures. Investments such as these will allow us take full advantage of the Canada-European Union Comprehensive Economic and Trade Agreement as soon as it comes into effect.
- **Support the construction of a new marine terminal.** The existing terminal cannot accommodate enough large ships, and its general condition betrays its age. A modern new building will allow Montréal to expand its reputation to reach an international clientele of renowned cruise lines.

Recommendation 7: The government should develop the city's port and marine infrastructures:

- define the scope of a program to strengthen the Ontario-Quebec continental gateway and specify its budget parameters
- support the construction of a new marine terminal

B. Build the Champlain Bridge in the new time frame

The business community is overjoyed by the federal government's recent announcement that it will build a new Champlain Bridge in 2018, three years earlier than initially planned. This bridge is a strategic link of crucial importance not only for the Montréal metropolitan region but also for

Canada, since we estimate that nearly \$20 billion in goods cross it every year. Disrupting traffic on the Champlain Bridge would have dire consequences for Montréal's economy. Meeting the new time frame should be an absolute priority.

The federal government should also take note of the objections and concerns expressed by key players in the metropolitan region related to the introduction of a toll on the new Champlain Bridge. Before announcing the introduction of the toll, the government should prove that the toll will not displace traffic to other South Shore bridges or create traffic flow problems for people and goods. Some 160,000 cars and trucks cross the Champlain every day, making it the busiest bridge in Canada. The Champlain Bridge plays a strategic role in the flow of people and goods.

If study results show that the toll will not have any major negative effect on the flow of people and goods, we ask the government to set a rate for the toll that is affordable and that takes into account the users' capacity to pay. In the same vein, we encourage the government to clearly announce that it will foot a large share of the construction bill for the new Champlain Bridge. It should also announce, in the very near future, the amount of the federal contribution to this infrastructure.

Recommendation 8: The government should build the new Champlain Bridge by 2018, as planned. It should also:

- take note of the objections and concerns expressed by key players in the metropolitan region with regard to the introduction of a toll on the new bridge
- prove that the toll will not displace traffic to other South Shore bridges or create traffic flow problems for people and goods
- if study results show that the toll will not have any major negative effect on the flow of people and goods, introduce a toll rate that is affordable and that takes into account the users' capacity to pay

C. Improve the competitiveness of our airport infrastructures

Airport infrastructures are crucial for the competitiveness of the business environment in the Montréal region and the whole of Canada. They nurture both trade and tourism. The high rent paid by the Montréal airport increases the cost of air transport and makes us less competitive. Indeed, many Montréal travellers cross the border to take advantage of lower US prices. According to the report of the Standing Senate Committee on Transport and Communications,⁴ over 85% of passengers at the Plattsburgh International Airport, an hour south of Montréal, come from Canada.

We ask the government to reduce or eliminate rent charged to Canada's airports. In the case of Montréal-Trudeau, this measure would make its airfares more competitive compared to other airports in North America and improve the possibility of attracting more direct international air connections, an urgent demand of the Montréal business community.

Recommendation 9: The government should reduce or eliminate the rent paid by the Montréal airport to improve the possibility of attracting more direct international air connections.

⁴ STANDING SENATE COMMITTEE ON TRANSPORT AND COMMUNICATIONS. June 2012. *Future of Canadian Air Travel: Toll Booth or Spark Plug?*

V. Define and offer funding envelopes to celebrate the 375th anniversary of Montréal and the 150th anniversary of the Canadian Confederation.

The Government of Canada has already expressed its intention to celebrate the 150th anniversary of Confederation in 2017. **We are asking it to begin immediately to define the form these celebrations will take in major Canadian cities, and in particular in Greater Montréal.** These celebrations should be the opportunity for the Government of Canada to leave a legacy to future generations, within Greater Montréal and elsewhere in the country.

For the 375th anniversary of Montréal – which is also the 50th anniversary Expo 67 – we are asking the government to **set aside in the budget specific amounts to support celebrations that are worthy of Canada's first historical city.** These celebrations should be the opportunity for the Government of Canada to make structuring investments that will have positive repercussions for the city and that will boost Montrealers' sense of pride.

With this in mind, we are asking the government to invest in its federal assets, beginning with the redevelopment of the Old Port of Montréal. The Old Port is strategic for the tourism sector and for the entire economy of the metropolitan region. More specifically, we are asking the government to proceed with the many proposed modernization plans and, in particular, to **put forward novel solutions that will allow Montréal to enjoy the full potential of Grain Elevator No. 5.**

Recommendation 10:

The government should clearly announce the form that the celebrations of the 150th anniversary of Confederation will take in major Canadian cities, especially in Greater Montréal, and specify the funding envelopes that will be offered.

The government should also set aside in the budget specific amounts to support the celebrations of the 375th anniversary of Montréal (and the 50th anniversary of Expo 67), Canada's first historical city.

It should also invest in its federal assets, starting with the redevelopment project for the Old Port of Montréal and Grain Elevator No. 5.

VI. Balance the budget in the planned time frame and ensure competitive taxation for businesses

Adhering to the plan to return to a balanced budget is essential to our collective prosperity. It sends a positive signal to investors and helps maintain our credit rating. Consequently, it helps avoid an increased borrowing rate and higher debt servicing. Low interest rates also offer an opportunity to pay down the public debt and to continue to gain ground compared to other industrialized countries.

The Board of Trade supports the government's decision to follow through on its commitment to return to a balanced budget in the planned time frame of 2015-2016. This will allow the government to regain a margin of budgetary manoeuvre in the event of an economic downturn and, subsequently, to generate budget surpluses during times of economic growth. In the same vein, **the Board of Trade applauds the government's announcement, in the Throne Speech on October 16, that it will table a balanced budget bill** that requires it to adopt balanced budgets during normal economic times and that sets concrete timelines for returning to balance in the event of an economic crisis. This law will ensure

budgetary restraint and avoid the pitfalls of structural deficits, especially during periods of economic growth.

Budget balance should be achieved by focusing on expense reduction and guaranteeing competitive taxation for businesses. The government should therefore:

- **Reduce the tax rate for businesses as soon as the budget is balanced.** The government is expecting to achieve surpluses beginning in 2015. It should also seize this opportunity to lower income taxes and payroll taxes and ensure that corporate tax rates are competitive on the international scale. This measure is essential if we are to support the growth of our businesses and make them more competitive.
- **Continue to review and rationalize all public expenditures.** The government should systematically examine all expenditures and determine which ones are no longer relevant. The goal is not to arbitrarily reduce government expenses but to increase the productivity of its services and assess potential savings in its programs.

Recommendation 11: The government should keep its sights set on achieving a balanced budget by 2015-2016:

- reduce the tax rate for businesses as soon as the budget is balanced
- continue to review and rationalize all public expenditures

Conclusion

The government needs to take advantage of the relative resiliency of Canada's economy and public finances to achieve a balanced budget as soon as possible and to subsequently reduce income taxes for business to allow them to become more competitive.

Creating jobs and wealth should also be priorities for the government. It should support the growth of its cities, which are the true engines of the Canadian economy. It needs to improve the competitiveness of driver sectors and businesses in Greater Montréal and invest in strategic infrastructure projects. By focusing on the development of Greater Montréal, the government is supporting the growth of Quebec and of Canada as a whole.

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