

February 25, 2013

Ms. Éline Zakaïb
Minister for Industrial Policy
and the Banque économique de développement du Québec
380 Saint-Antoine St. West, 5th floor
Montréal, Quebec H2Y 3X7

Subject: Brief from the Board of Trade of Metropolitan Montreal as part of consultations to develop an industrial policy for Quebec

Dear Minister,

On behalf of the Board of Trade of Metropolitan Montreal, I am honoured to share our recommendations for developing an industrial policy for Quebec.

The Board of Trade welcomes the Government of Quebec's decision to institute an industrial policy and make government policy more consistent and effective. For a number of years, we have been talking about the need to make businesses more competitive, both locally and internationally. We believe this is the only way to increase wealth creation in Quebec and improve our standard of living.

Equally important, even essential, is that the Government of Quebec's industrial policy pay particular attention to the economic dynamic of the metropolitan Montréal area. We are not denying the importance of balancing the policy to support business development throughout the province, but we must recognize that only one region offers all the economic conditions of a major centre and fertile ground for industrial clusters to emerge.

The metropolitan Montréal area accounts for almost half of the province's production and employment. The diversity of its economy — the most diverse in Canada — was in part behind its resilience during the 2008 financial crisis and the Quebec economy's superior performance during the ensuing "Great Recession." However, the city's economy has been losing steam in the past year. Job market indicators show that the unemployment rate in the CMA of Montréal is higher than that of Quebec. An industrial policy must restore the city's role as the economic driver of the province.

The Board of Trade's brief urges the government to develop a policy that takes into account the following key success factors:

- The policy should be created with a view to rationalizing spending and increasing alignment between government efforts to support economic development and the industrial base of Quebec and Montréal. We support the government's initiative to consult key players in economic development, and we encourage it to continue these consultations.
- The industrial policy must address the problem that affects our economic base, i.e., historically low business productivity. This vulnerability, exacerbated by the relative strength of the loonie, is one of the biggest challenges for businesses in an increasingly integrated, knowledge-based world economy.
- The policy must take into account buoyant sectors and develop those that have the greatest potential for growth. Our industrial clusters and niches of excellence are the result of growth-generating economic dynamics and must continue to receive strategic support.
- While ambitious, the policy must realistically reflect the capacity of the Quebec economy. The only way Quebec and Montréal can take advantage of opportunities from new niches of excellence is to avoid spreading ourselves too thin.

This brief also sets out two limits to government intervention:

- First, we encourage the government to be vigilant when developing new centres of excellence. While creating a video game industry generated growth, developing the e-commerce industry was relatively costly and ineffective. Generally speaking, the state's role should be to create the conditions for centres of excellence to emerge based on real economic strengths.
- Second, we must remember that economic strength depends on the ability to adapt to the world economy. We are not asking the government to institute measures that coddle industries and businesses, but rather to create the conditions for them to adapt, innovate as needed and succeed in their development.

With the above in mind, we make the following recommendations:

I. Support high-value-added strategic sectors

In spite of a transition to the tertiary sector among advanced economies, manufacturing is still a key sector for Quebec and Montréal. It has major multiplier effects on added value and job creation. And in 2010, over a quarter¹ of the province's GDP depended on it. This industry alone generated \$41 billion in direct spinoffs and \$26 billion in indirect spinoffs.

Support for manufacturing businesses is therefore essential – particularly those that are sustainable and found within niches of excellence; we must not forget that in a knowledge economy, consumer goods production is intimately tied to service production. Besides, the service industry represents almost 75% of GDP and 82% of jobs in the metropolitan Montréal area.² The government must take into consideration the growth-generating sectors of the economy that help create gains in productivity and innovation.

¹ SAMSON BÉLAIR/DELOITTE & TOUCHE LLP AND AFFILIATED ENTITIES. 2012. The future of Quebec's manufacturing industry: solutions for a brighter tomorrow.

² CONFERENCE BOARD OF CANADA. 2011 data.

Additionally, a “one size fits all” approach for industrial sectors will not be effective or achieve the expected spinoffs. The industrial policy must take into account what is unique about each sector and offer solutions that meet their needs.

A. Support the city's industrial clusters

Industrial clusters are an important driver of the city's growth and competitiveness. They foster interaction between businesses and research institutions, stimulating innovation in the process.

The metropolitan Montréal area's system of industrial clusters enables the development of strategic sectors and is a decisive factor in our prosperity as a society. This system also makes it possible to diversify the economy and was a determining factor in our resilience during the Great Recession. So beyond simply targeting new growth-generating sectors, we ask the government to continue to actively support the development of the city's seven clusters: aerospace, film and television, logistics and transportation, life sciences, financial services, information and communications technologies (ICT) and clean technology.

In the same vein, the government must continue to support the service sector given that the manufacturing and service sectors are increasingly interdependent. For example, a video game developer can innovate and create a new product that is sold online rather than manufactured (e.g., Behaviour Interactive).

In its industrial policy, the government must promote all growth-generating initiatives as well as the production of products in technology-intensive and high-value-added niches, such as the fashion and apparel industry.

B. Rely on our energy resources to develop an electric transportation centre

We support the government's vision to move toward a greener economy and promote the electrification of transportation. An industrial policy based on sustainable development will differentiate our economy and increase competitiveness.

Quebec is known internationally for its expertise in electricity. The move to electrify transportation goes back to the original meaning of sustainable development; it will reduce greenhouse gas emissions while fostering our industrial base. Such an initiative will allow businesses and individuals to take greater advantage of local energy and ultimately reduce our dependence on oil, improving our balance of trade in the process. We applaud the government's initiative to create a \$200 million fund for clean transportation. Given the current state of public finances, the government should nonetheless carefully evaluate electric transportation projects to ensure they offer a solid return. We also urge it to evaluate the use of natural gas in transportation.

C. Continue to focus on the exploitation of natural resources and metals processing

The exploitation of natural resources is an incredible tool for wealth creation in Quebec and Montréal. The potential spinoffs from exploiting natural resources will amount to \$52 billion over a 25-year period for the metropolitan area alone.³ An industrial policy must promote the exploitation of natural resources. We therefore ask the government to ensure that we have a competitive mining royalty regime to attract investors and promote wealth creation.

Metals processing generates an annual \$1.8 billion in added value for the metropolitan Montréal area. To maximize spinoffs from exploiting natural resources upstream and downstream in the value chain, the government must help attract processors to the metropolitan area. However, as

³ BOARD OF TRADE OF METROPOLITAN MONTREAL. April 2012. Natural Resources: Leverage for the City's Growth.

demonstrated in our most recent study, imposing quotas on local processing is not the route to take.⁴ Instead the government needs to understand the issues and particularities of each industrial cluster and focus on sectors where Quebec has what it needs to make the most of growth opportunities, in particular in copper, zinc and emerging metals such as lithium. And to attract more private investment in this field (as noted in our study), we ask the government to reduce the \$300 million limit for tax holidays on investments (C2I). This amount is too high for certain primary processing projects.

II. Focus on private investment and improve the productivity and competitiveness of our economy

For the industrial policy to have the greatest impact, we need to put in place measures to promote business investment and productivity. We therefore ask the Government of Quebec to make its industrial and tax policies and its labour policies consistent.

A. Foster a competitive business environment

To help attract and retain investment, we must ensure that the business environment in Quebec and Montréal is competitive. To accomplish this, as noted in a Board of Trade study released in June,⁵ we ask the government to ensure that we have competitive corporate and personal taxation, modern and efficient road infrastructures and skilled labour at our disposal.

We also applaud the Government of Quebec's initiatives to extend until 2017 and to increase the investment tax credit, to introduce a tax holiday for investments (C2I) and to form the Banque de développement économique du Québec (to create a single service point for business assistance programs). All of these initiatives will promote private investment.

B. Increase business productivity

Quebec and Montréal have suffered from weak productivity for a number of years. In fact, among OECD countries, Quebec ranks 17th in labour productivity.⁶ To improve our performance, we recommend creating measures to encourage companies to invest in information and communications technology (ICT) and reinforcing support for employee professional development in new technologies, in particular among small businesses. Likewise, it is important to introduce initiatives to encourage businesses to invest in leading-edge machinery and equipment to increase productivity. Additionally, measures that encourage companies and industrial clusters to share best practices with other businesses in their sectors will contribute to the sharing and transfer of technologies and lead to gains in productivity.

We ask the Government of Quebec to put in place measures to encourage businesses to invest in and effectively integrate ITCs, leading-edge equipment and best practices to reinforce our industrial base. The rise in the Canadian dollar in recent years is an opportunity for businesses to make such investments.

⁴ BOARD OF TRADE OF METROPOLITAN MONTREAL. February 2013. Metal Processing and Greater Montréal: A Sustainable and Promising Alliance.

⁵ BOARD OF TRADE OF METROPOLITAN MONTREAL. June 2012. Competitiveness of the Greater Montréal Business Environment.

⁶ CENTRE FOR PRODUCTIVITY AND PROSPERITY. October 2012. Productivity and Prosperity in Quebec – 2012 Overview.

C. Put high-performance labour at the disposal of industries

In recent years, job creation has been concentrated in the service sector and high-value-added manufacturing sector. With this shift in employment in the city, we need to ensure education is better aligned with jobs in high demand.

And yet, the high dropout rate and overqualified labour, combined with low participation of adults in job-related training, demonstrate the need for the government to rely on effective basic education, better align training and required skills (technical or high tech) and orient labour toward high-value-added activities that are in demand. Furthermore, given the relative decline in qualified labour, we ask the government to support initiatives that help attract strategic talent and immigrant workers whose skills are compatible with the local job market.

III. Strengthen innovation and its commercialization

Innovation plays a key role in a society's economic and social development. This is even more so the case for a knowledge economy like that of the metropolitan Montréal area. It is therefore essential that the Government of Quebec align its innovation strategy with its industrial policy.

A. Foster the commercialization of innovations

Innovation allows industries and businesses to differentiate themselves and remain competitive both nationally and internationally. R&D is necessary, whether for innovation in products or processes. A study shows⁷ that Quebec ranks favourably among OECD countries in terms of spending in research and development, although it ranks only between 15th and 16th for the number of patents filed, even though the province has a very generous R&D support program.

We ask the government to favour direct financing. If the government targets projects upstream from research, businesses will be encouraged to pursue applied research on their own. As a result, the spinoffs of government spending will be greater.

B. Encourage partnerships between educational institutions and businesses

Data shows⁸ that the majority of R&D investments are not made by companies. The government must therefore promote a model whereby businesses identify the most promising innovations and then collaborate with research institutions to ensure innovations are brought to fruition and commercialized. The government must also foster the development of a high-performance ecosystem made up of research institutions, industrial clusters, technology transfer centres, financial institutions and government partners, similar to initiatives like the CRIAQ, to maximize the spinoffs of research.

IV. Support the development of international markets and our competitiveness

International trade is critical for the economic development of Quebec and Montréal. Exports represent almost 45% of the province's GDP,⁹ the vast majority of which is in the manufacturing sector. In the current context, to be competitive and sustainable, businesses need an effective strategy for developing international markets. However, the rise in the Canadian dollar and

⁷ CENTRE FOR PRODUCTIVITY AND PROSPERITY. April 2011. La performance québécoise en innovation. Robert Gagné and Pierre-Olivier Lachance.

⁸ SAMSON BÉLAIR/DELOITTE & TOUCHE LLP AND AFFILIATED ENTITIES. 2012. The future of Quebec's manufacturing industry: solutions for a brighter tomorrow.

⁹ GOVERNMENT OF QUEBEC. June 2012 edition. Le calepin – Le commerce extérieur du Québec.

competition from emerging markets with lower production costs have made the manufacturing sector and exports quite vulnerable.

We ask the government to adopt measures to encourage companies to create a business plan and development strategy for international markets from the initial phases of their foundation and to promote strong entrepreneurship. For this to be possible, an industrial policy must be aligned with a foreign trade plan.

A. Facilitate access to international markets

Tariff and non-tariff barriers between trade partners tend to be reflected in the price of exported products and are an impediment to trade. Free trade agreements are essential to facilitating local industry access to international markets. The government needs to align its industrial policy with its foreign trade policy. It must continue negotiations to sign the Comprehensive Economic and Trade Agreement and continue to target emerging countries with strong potential, such as developing countries in Asia and Latin America.

To support business efforts in strategic sectors internationally and reduce the cost of business development, the government needs to equip businesses for internationalization efforts by working closely with development organizations internationally.

B. Help businesses find their place in international value chains

International value chains play a fundamental role in international trade. For example, in Quebec, between 30% and 50% of exports to the United States (which represent some 67% of our total exports) are attributable to trade between subsidiaries of the same company.

In fact, subsidiaries are increasingly globalized. In other words, the stages of production for a given product are spread around the world. This model is useful for local companies and strategic sectors in that it offers them greater opportunity to increase revenue, access new markets and take advantage of economies of scale. Government efforts must reflect this new reality.

We ask that the industrial policy help attract foreign companies and support our industrial fabric of suppliers so that they can take their place among major players in international value chains.

In closing, to promote sustainable economic development, the government must focus on strategic and growth-generating sectors where businesses from Quebec and Montréal have strengths and comparative advantages. To maximize the impact of an industrial policy, the government must also align it with strategies to increase private investment, productivity and innovation and develop international markets.

Rest assured that you have the Board of Trade's full cooperation in the development of Quebec and Montréal.

Sincerely,

Michel Leblanc
President and CEO

**An overview of the recommendations of the Board of Trade of Metropolitan Montreal
for developing an industrial policy for Quebec**

I. Support high-value-added strategic sectors

- A. Support the city's industrial clusters
- B. Rely on our energy resources to develop an electrical transportation centre
- C. Continue to focus on the exploitation of natural resources and metals processing

II. Focus on private investment and increase the productivity and competitiveness of our economy

- A. Foster a competitive business environment
- B. Increase business productivity
- C. Put high-performance labour at the disposal of industries

III. Strengthen innovation and its commercialization

- A. Foster the commercialization of innovations
- B. Encourage partnerships between educational institutions and businesses

IV. Support the development of international markets and our competitiveness

- A. Facilitate access to international markets
- B. Help businesses find their place in international value chains