Increasing Montreal's competitiveness

Federal Pre-Budget Submission 2006-2007

Presented to
The Honourable James Michael Flaherty, P.C., M.P.
Minister of Finance
Government of Canada

By
The Board of Trade of
Metropolitan Montreal

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Chambre de commerce
du Montréal métropolitain
Board of Trade of Metropolitan Montreal

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Introduction

The Board of Trade of Metropolitan Montreal has some 7,000 members. Its mission is to represent the interests of the business community of Greater Montreal and to provide individuals, merchants and businesses of all sizes with a variety of specialized services to help them achieve their full potential in terms of innovation, productivity and competitiveness. As the largest private organization dedicated to economic development, the Board of Trade would like to submit its pre-budget recommendations for 2006-2007.

Preparing a budget invariably involves making choices, often difficult ones, between a series of priorities and emergencies. The Board of Trade is sensitive to this fact and took it into consideration while preparing this pre-budget submission it is presenting to the Minister of Finance on behalf of its members. As such, the Board of Trade's first budget recommendation – which is also reflected in each of the specific recommendations presented hereafter – is that the Government of Canada present a responsible, balanced budget that focuses on the concept of the return on public funds. As a general rule, Canadians would like to see major public services maintained and indeed improved, as well as a reduction in their tax burden. Since the only way to reconcile these two objectives is to increase the collective wealth, we believe the next budget should focus on choices that will most contribute to the enrichment of Canadians.

In this context, the optimal development of the country's metropolitan regions becomes critically important. More than ever before, urban centres around the world are driving economic growth and wealth creation. Given that talent and investments tend to be heavily concentrated in metropolitan areas, cities are engaging in heated competition against each other. No exception, Canadian cities are the main engines of the country's growth, with the six largest accounting for 45% of the Canadian GDP.

The Government of Canada appears to be increasingly sensitive to this reality and has taken some promising action to give the metropolitan regions of the country the means to exploit their full potential. For example, the government has granted a full refund of the GST to municipalities, a move that has helped improve municipal finances across the country. In fact, the Board of Trade had made this very request in its pre-budget submissions of previous years. There is also the gradual transfer over five years of a portion of the excise tax on gasoline, which is expected to provide the municipalities of the Montreal Metropolitan Community with an additional $179 million this year. Still, other commitments remain to be fulfilled. Accordingly, it is through its 2006-2007 budget that the Government of Canada will confirm whether it is ready to translate into concrete measures its aspirations for the nation's major cities.

Recommendations

1. The economic competitiveness of Canada and its metropolitan regions

1.1. Improve business competitiveness

For the Board of Trade, Montreal's economic competitiveness, while undeniably fuelled by local talent, is also dependent on the access its businesses have to export markets and on their ability to invest in their own success.

1.1.1. Create a foreign direct investment fund

One of the many ways of conducting international business, foreign direct investment (FDI) has been increasing for the past few decades. According to the United Nations Conference on Trade and Development (UNCTAD), in 1980 the total value of FDIs in the world amounted to US$53.7 billion. Ten years later, the figure was US$238.7 billion, and by 2000 had reached US$1.2 trillion. After slipping somewhat, FDIs reached $US730.2 billion in 2004.

There are many advantages to FDI. According to an OECD study,[1] each $1.00 of outward foreign direct investment was associated with $2.00 of additional exports, and a trade surplus of $1.70. Moreover, FDI outflows are a powerful mechanism for accessing foreign markets. In fact, through FDIs, exported finished products are gradually replaced by high value-added intermediate products and services from parent companies to their foreign subsidiaries.

Still, Canada has hardly established a presence on the international market and therefore does not fully benefit from the advantages these types of investments can offer. In fact, most of the businesses that take the FDI route are large companies.[2] As such, SMEs, which are the backbone of the Canadian economy, are still under-represented in the global economy, perhaps because they are not prepared for a more complex and riskier business climate and have far fewer resources, especially financing tools, for FDI projects.

Canada does not really offer financial support to companies interested in investing abroad. While many economic development agencies are mandated to attract foreign investment to Canadian soil, the actual Canadian initiatives to promote FDI are few and far between. Yet foreign direct investment funds (FDIF) exist in every one of the G7 nations. There are about twenty such funds in Europe, two in Asia and one in North America, all of which are intended to provide, among other things, equity, quasi-equity, loans, technical assistance and risk insurance.

Unfortunately, there is no equivalent in Canada. Although we do have the Canadian International Fund for Africa (CIFA), it is limited to a geographic area and is open to private investors whether or not they are Canadian. Furthermore, because CIFA investments range from US$5 million to US$50 million, it is usually beyond the reach of Canadian SMEs. The good news is that a new fund was announced in the federal budget update. The government planned to allocate $250 million to set up the Global Success Fund, which would offer SMEs support but probably not through financing tools. Should the new government decide to go forward with this initiative, it would then not be considered an FDIF.

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[1] OECD, *Open Markets Matter: The Benefits of Trade and Investment Liberalization*, Paris, 1998.

[2] In fact, according to a KPMG study, 97.14% of FDI by Canadian companies in 1998 were transactions of more than C$100 million and the majority involved mergers and acquisitions.

Recommendation 1.1.1

That a real foreign direct investment fund be made available to Canadian SMEs.

1.1.2. Facilitate the flow of Canadian exports across the U.S. border

The Greater Montreal area has over 5,000 exporting companies and accounts for 70% of all Quebec exports. Within a 1,000 kilometre radius of the region, there is a pool of 80 million consumers in over 60 large North American cities. The vitality of the export sector, which represents more than 55% of Quebec's GDP,[3] plays a major role in Quebec's economic growth. In 2001 Quebec international exports generated over 667,000 jobs.[4] In 2004 Canadian exports amounted to $412 billion, of which over $348 billion or 85% headed south. The Champlain-Lacolle border crossing is the most frequently used point of entry into Quebec and the gateway to the vast market of New York, Philadelphia and Washington, D.C. In 2003, 387,962 trucks and 999,836 cars passed through this crossing to the U.S., an average of more than 1,000 trucks and 2,700 automobiles per day.

[3] Government of Quebec, Ministère du Développement économique et régional, *Calepin: Le commerce extérieur du Québec*, December 2003.
[4] Government of Québec, Ministère du Développement économique et régional, *Calepin: Le commerce extérieur du Québec*, December 2003.

Recommendation 1.1.2.

That complementary or joint initiatives be quickly implemented by the governments of Quebec and Canada to increase the flow of trade between Canada and the United States, including:

- **Increase efforts to actively encourage small and mid-sized exporters to participate in border security programs (C-TPAT, FAST-EXPRES);**
- **Set up effective measures for small and mid-sized exporters grappling with the high cost of complying with the new customs standards;**
- **Make the investments announced in the road infrastructures leading to the Lacolle border crossing with a view to making it – in conjunction with the major work to be carried out at the U.S. Champlain border – a state-of-the art transit station for the flow of people and goods between Eastern Canada and the U.S. East Coast.**

1.1.3. Step up elimination of the federal capital tax

The federal capital tax is aimed at large corporations and financial institutions and is levied on equity capital, debt capital and capital reserves. Capital is a mobile factor of production that can be rapidly moved to those locations that offer the best conditions for profitability. Consequently, investment opportunities in Canada are rendered less attractive to foreign investors who compare the business tax environments between countries and provinces.

Because it constitutes an additional fixed expense for businesses, capital tax stifles new investment growth and dissuades innovation, the acquisition of new technology and the development of new skills.

The Board of Trade was pleased to hear the federal government announce in February 2005 that it would gradually abolish the federal capital tax by 2008. Still, immediate elimination would be preferable as it would rapidly encourage greater local and foreign investments, which would fuel GDP growth and help, in the medium term, offset the loss of revenues that the government currently derives from this tax. The Board of Trade therefore encourages the government to do whatever is necessary for Canada to quickly catch up to the other OECD nations, which apart from Germany and Japan, have already abolished this type of tax.

Recommendation 1.1.3.

That the federal government immediately abolish the federal capital tax, a tax measure considered to be highly detrimental to business productivity, the competitiveness of financial institutions and job creation.

1.2. Improve the financial situation of cities

As previously mentioned, the economic competitiveness of Canada and the metropolitan regions is directly tied to the competitiveness of its businesses. However, it also tied to the quality of its

urban infrastructures. In fact, according to a study published by Statistics Canada,[5] urban infrastructures are a factor that affects the operating and production costs of businesses and merchants, particularly in terms of merchandise flow and transportation.

As such, if we are to have quality infrastructures, we must immediately improve the financial situation of our municipalities whose main problem is over-dependence on property tax revenues. In Montreal, 75% of 2006 revenues will be derived from properties,[6] i.e., property taxes, taxes aimed at non-residential property owners and payment in lieu of taxes. These same businesses and merchants, through business taxes and property tax on non-residential properties, are among the largest contributors to city financing. In the case of Montreal, property tax on non-residential properties for the 2006 budget equals about half of the taxes collected by the City, whereas this category of property represents only 28.3% of the taxable property value. Lastly, the property tax is poorly adapted to the new and ever-expanding municipal responsibilities: it is a tax base that does not evolve at the same pace as economic growth.

When it comes to property, the Government of Canada, unlike private owners, enjoys a special status whereby it does not have to pay the full property tax amount, and as a result, the full cost of municipal services its properties nevertheless enjoy. Even if the Government of Canada is required to pay the rates and service charges incurred for services consumed directly by public immovables, in most cases, these charges are not enough to cover the entire cost of the municipal services. Compensation intended to address this shortfall is referred to as "payment in lieu of taxes." For 2006, it is estimated that Government of Canada and its corporations will issue the City of Montreal $47.8 million as payment in lieu of taxes.

In the interest of tax equity, the Board of Trade of Metropolitan Montreal supports the conclusion of the *Commission nationale sur les finances et la fiscalité locales* recommending that the federal government issue payments in lieu of taxes equal to 100% of the local taxes on the property values of its own immovables. Such a measure would simplify payments in lieu of taxes and increase municipal revenues. The Board of Trade also has certain expectations with regards to the upcoming report of the External Advisory Committee on Cities and Communities, referred to as the Harcourt Committee, and hopes that its content is given the attention it deserves.

Recommendation 1.2.

That the payments in lieu of taxes made by the Government of Canada and its crown corporations to the municipalities equal 100% of the local taxes on the property value of all the immovables it owns as of the next budget year.

1.3 University funding

University teaching and research institutions play a key role in the Montreal economy; universities spend nearly $2.5 billion each year on salaries, goods and services. Montreal leads the country in university research ($1.1 billion) and is the only city with two medical schools. Moreover, many private companies have close business ties with its universities, ties that greatly benefit the metropolitan region's knowledge, biotech and high-tech sectors.

[5] Harchaoui, Tarek M. and Faoui Tarkhani, *Public Infrastructure in Canada: Where do we stand;* Statistics Canada, November 2003.
[6] Municipal council and agglomeration budget.

The only level of schooling where competition is global, universities are facing enormous and constant funding challenges. As such, it is certainly in the government's best interest to support the knowledge economy by increasing its level of university funding. Indeed, an economy's innovative capacity is directly tied to the level of talent and education of its workforce. Plus, given that this new reality is taking shape at a time when demographic growth is waning and the population is aging, the issue of talent cannot be resolved solely by developing local talent, particularly in a context where, within the next few years, the net growth of our workforce will be entirely fuelled by immigration.[7] Canada must work to attract and keep skilled individuals from around the world who are looking for a better place to live and nurture their creative potential.

We therefore believe special attention should be paid to the recommendations that the Council of the Federation will formulate in this regard. Increased investment in universities would be one more way for Montreal to attract, educate and retain more young foreign talent who can then do their part to help the region maximize its development potential.

Recommendation 1.3

That the budget provide for an increase in university funding in order to maintain quality teaching and develop research activities.

1.4 Funding artistic creation

At a time when international competition is being played out predominantly between major urban centres, it has become essential for cities to create an environment that is conducive to wealth creation, and in order to do this, they must offer an excellent quality of life. In this regard, backing one of Montreal's distinctive characteristics – its cultural vitality – is of utmost importance.

Montreal's cultural sector generates annual spinoffs of some $5 billion dollars and accounts for no less than 90,000 direct and indirect jobs.[8] This sector also attracts over seven million visitors who, year after year, visit Montreal and enjoy its cultural events, which include major festivals, museum exhibits, orchestral performances and theatre and dance productions.

Moreover, culture has a way of bringing people together in Montreal's neighbourhoods, as evidenced by the TOHU complex and by structuring and mobilizing projects like the Quartier des spectacles. As such, we believe that culture plays a decisive and strategic role in terms of quality of place, the collective ability to innovate and enrich knowledge, and the ability to attract and retain talent. In short, culture has a direct impact on the city's growth.

Montreal has already carved a reputation as a cultural destination. We must now reinforce this branding by making sure the world knows about its cultural vitality.

Recommendation 1.4

That the budget granted to the Canada Council for the Arts be doubled within the next three years to $300 million.

[7] Board of Trade of Metropolitan Montreal, *Montreal Health Report,* 2005 edition, p. 23.
[8] Board of Trade of Metropolitan Montreal, *Private Funding of Culture*, November 2005.

2. Major urban infrastructure projects

As stated earlier, municipalities require tremendous financial resources to maintain and renew their urban infrastructures. The City of Montreal alone needs $12 billion over the next 10 years.[9] For the Board of Trade, the sustainable economic development of Canada's urban centres hinges on an adequate and rapid response to these needs. First and foremost, efficient infrastructures reduce costs for the businesses and companies that rely on them.[10]

Moreover, infrastructure needs are a heavy burden on municipal administrations and even a threat to their financial equilibrium. In the medium term, the Board of Trade fears that cities will have no choice but to substantially raise taxes or significantly reduce services to citizens, merchants and business people. Lastly, it is important to remember that adequate, efficient infrastructures contribute to a city's quality and environment which, in turn, boosts its competitive ability to attract investors and workers.

In this context, the Board of Trade believes the time has come to innovate and implement new ways of financing urban infrastructures, beginning with close collaboration between all levels of government – federal, provincial and municipal – and the private sector.

2.1. Rail shuttle between downtown Montreal and the Montreal-Trudeau Airport

In terms of the proximity of its international airport to downtown, Montreal ranks among the leading cities in the world. With adequate roads, the Montreal-Trudeau Airport could therefore become a benchmark in airport-downtown links. However, the transportation infrastructures serving the airport are dilapidated and the Dorval exchange is obsolete and ineffective. The competitive advantage of the airport's proximity is therefore offset by the compromised transportation flow, which only underscores a need the Board of Trade has recognized for many years now: airport users must have better access.

At a time when the Dorval exchange is about to be overhauled, we believe that easy, rapid and reliable rail shuttle access – which exists in most major cities in the world – should be added to the project. In fact, such a shuttle would make it possible to reach the airport from downtown in less than 30 minutes regardless of the weather or traffic conditions. Thanks to its speed, the shuttle would definitely appeal to business people as well as relieve traffic in and around the airport. Moreover, setting up this type of shuttle would be relatively easy because a rail corridor is already in place on just about the entire route between downtown Montreal and the airport. It makes sense that the departure point from downtown should be from the Gare Centrale where the other rail links are located, not to mention many public transit links.

[9] City of Montreal, *Portrait et diagnostic*, June 2005.
[10] City of Montreal, *Portrait et diagnostic*, June 2005.

Recommendation 2.1

> **That the governments of Quebec and Canada implement the necessary measures to rapidly set up a rail shuttle that would greatly facilitate the mobility of Montrealers and visitors to and from the international airport.**

2. 2. Société du Havre: a top priority

The Montreal Harbourfront development project spearheaded by the Société du Havre is possibly the most ambitious urban development and planning project in Montreal's history. Perhaps because of the size of the territory being planned or the magnitude of the work, the investment required to exploit the immense potential of the Harbourfront is simply colossal. We believe that to ensure its top-quality development, a partnership with the private sector is inevitable.

In this particular case, we believe it important to mention the leadership the Quebec and Canadian governments can provide as catalysts of the project. Just as it contributed to the construction of the head office of the Caisse de dépôt et placement du Québec and the expansion of the Palais des Congrès to make the Quartier International a reality, the Quebec government could greatly speed up the execution of the Harbourfront project by working in synergy with Société du Havre. In this regard, we believe the construction of a world-class exhibition centre and the Peel Basin Complex as well as the relocation of the Casino merit top priority. Moreover, to facilitate access to the site, and more specifically, to the shores of the Saint Lawrence, the Bonaventure Autoroute should be modernized, and a public transit link set up between the Harbourfront and downtown.[11]

Recommendation 2.2.

> **That the governments of Quebec and Canada each contribute to the Montreal Harbourfront development project by placing priority on the planned investments in the Harbourfront and, in so doing, give the project real impetus.**

2. 3. The Old Port of Montreal: A leading tourist destination in Canada

Attracting seven million visitors each year, the Old Port of Montreal is a fundamental element of Montreal's economic development that contributes to the city's image on the international scene. Thanks to its infrastructures and widely varied events held throughout the year, the Old Port attracts countless Montrealers and tourists alike. The federal government's substantial investments in the past fifteen years to redevelop the Old Port have been most fruitful, and the Board of Trade is confident that these investments will continue to be forthcoming.

In this context, the Board of Trade commends the development vision of the Société du Vieux-Port and backs the targeted areas of development, which seek to promote heritage activities on the site and harmonize the Old Port's infrastructures with the surrounding area, namely, by providing easy public transit access to the site. This initiative is all the more important given that

[11] Board of Trade of Metropolitan Montreal, *Public transit: a powerful economic-development engine for the metropolitan Montreal region, December 2004*.

the Société du Havre is planning, over the next few years, to redevelop many areas adjacent to the Old Port. In our view, the combination of these two initiatives provides a unique opportunity to consolidate the redevelopment of the harbourfront and maximize the growth of the Old Port as well as promote the development of Old Montreal.

Much like it did for the Société du Havre, the Board of Trade supports the Société du Vieux-Port de Montreal's lobbying efforts with the government to ensure that this major tourist attraction receives the resources it needs for its full development.

Recommendation 2.3.

> **That the Government of Canada financially support the implementation of the Société du Vieux-Port's vision for 2005-2020.**

2.4. Public transit: sustainable and essential

The public transit system greatly contributes to the City's sustainable development, improving the mobility of individuals, reducing the number of vehicles on the road and improving the population's quality of life.

While public transit is a key aspect of Montreal's development, it also generates major spinoffs for the Greater Montreal area. The economic benefits extend beyond the fact that public transit agencies make purchases to run their operations. For instance, in 2003, public transit saved Montreal households nearly $600 million in commuting costs, providing them with greater purchasing power that can be used for shopping, cultural outings and recreation. Moreover, federal tax and incidental tax revenues derived from activities generated by Greater Montreal's public transit agencies were estimated at $94.6 million for 2003. As such, the Government of Canada collected more than $7.39 in various revenues for each $100 spent by the public transit agencies.[11]

In our view, the various levels of government should strive to increase the use of public transit and especially its market share in relation to vehicle use. To this end, the Board of Trade has identified four strategies that merit consideration:

- Ensure passenger comfort by upgrading certain public transit infrastructures and setting up new infrastructures adapted to passenger needs;
- Improve travel time and frequencies to enhance public transit's appeal over automobile use;
- Ensure the reliability of the transit system because this element is a major comparative advantage over automobile use, which is subject to the vagaries of the weather and traffic conditions;
- Improve infrastructures: For the Société de transport de Montréal (STM) alone, $3.5 billion will have to be spent over the next 10 years to replace and modify metro cars and renew fixed equipment such as concrete structures and ventilation systems.

Recommendation 2.4.

> **That the Canadian government permanently transfer a portion of the excise tax on gasoline as part of its involvement to provide reliable, recurring and predictable financing of infrastructures, specially public transit infrastructures.**

Conclusion

As economic engines, the metropolitan regions are contributing more than ever to Canada's prosperity. In this global context where economies are based on knowledge and innovation, this role is apt to become even more pronounced.

Faced with this reality, the development of the metropolitan regions must not be viewed in opposition to that of the other regions of the country. We must not think that the prosperity of one takes resources away from the development of another. Quite the contrary. Indeed, it is in Canada's best interest to ensure that its economic engines run at full throttle and it should therefore equip them with the right tools to maximize their potential.

It is with this in mind that the Board of Trade has presented the budget expectations of its members and put forth constructive proposals apt to improve the economic performance of the metropolitan regions and, by extension, that of Canada as a whole. In this same constructive spirit, the Board of Trade would also like to impress upon the government that it is available to work together on concrete, fundamental measures that will help grow the Montreal economy.