# Montreal: The urban advantage

## 2007-2008
## Federal pre-budget submission



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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## General recommendations

**GIVE MONTREAL THE MEANS TO CULTIVATE ITS UNIQUENESS AND STIMULATE GROWTH**

The Board of Trade of Metropolitan Montreal has some 7,000 members. Its mission is to represent the interests of the Greater Montreal business community and offer an integrated range of specialized services helping individuals, merchants, and businesses of all sizes to realize their full potential in terms of innovation, productivity, and competitiveness. It is thus as the largest private organization in Quebec dedicated to economic development that the Board of Trade transmits its 2007-2008 pre-budget recommendations to the Finance Minister of Canada.

First of all, the Board of Trade recommends that the optimal development of metropolitan areas be considered absolutely vital to the prosperity of the country. Throughout the world, urban centres are more than ever at the heart of economic growth and wealth creation. Canada's urban centres are certainly no exception, the five largest accounting for 43.6% of Canada's GDP and Montreal alone, home to 46.6% of Quebec's population, accounting for 49.1% of its GDP. Moreover, Greater Montreal produces 70% of all Quebec exports. Economic activity in the metropolitan area thus generates spin-offs extending well beyond its borders. Clearly, talent and investments tend to be heavily concentrated in cities, which face stiff competition from each other.

Of course, the Government of Canada appears to be increasingly sensitive to this situation and has made a number of promising efforts to give the country's metropolitan areas the means to exploit their full potential. These include refunding all of the GST paid by municipalities, a measure that has made a concrete contribution to improving municipal finances across the country, in line with a recommendation put forward by the Board of Trade. We should also mention the progressive transfer of revenue from part of the federal gasoline excise tax over a five-year period. Nevertheless, the major urban centres, with Montreal at the head of the list, expect more to be done. The 2007-2008 budget will thus give the Canadian Government an opportunity to confirm its desire to translate the ambitions it cherishes for the country's major cities into concrete budgetary measures.

It is time to fuel the growth of major urban centres, the economic engines of Canada. With a highly competitive tax system, of course, regarding which the government's intentions may be in the document *ADVANTAGE Canada – Building a Strong Economy for Canadians*, but also with projects that will enhance the appeal of Montreal and serve as springboards for wealth creation while respecting the fiscal balance maintained by the Government of Canada. In this context, an investment in the "urban advantage" would be fruitful, since Montreal is undeniably an immense asset to Canada – an asset the Canadian government would be wise to develop.

Finally, the Board of Trade believes that increasing collective wealth should be the primary objective of budgetary action and that, to that end, we must work tirelessly to establish a positive business environment. While the example set by Ireland must be viewed within a particular context, we nevertheless believe it demonstrates that carefully planned shifts can produce the desired results. Likewise, measures facilitating the move toward integrative trade and enabling companies to participate fully in global supply chains must constantly be improved.

## Specific recommendations

## 1. INVESTING IN MAJOR URBAN CENTRES

For many years, the Board of Trade has stressed the important role played by major cities in Canada's competitiveness. The impact of cities on economic growth means they deserve careful attention, particularly with regard to the condition of infrastructures in metropolitan areas. In fact, according to a study published by Statistics Canada[1], urban infrastructures can affect the production and operating costs of businesses and merchants, particularly in terms of the transportation and flow of goods. To ensure the performance of these infrastructures, we must immediately improve the revenue structure of municipalities, for the basic financial challenge facing cities is their over-dependence on property tax revenues.

### 1.1 IMPROVING THE FINANCIAL SITUATION OF CITIES

In Montreal in 2007, about 71.4% of revenues[2] derive from properties, i.e., property taxes, rates charged to property owners, and payments in lieu of taxes. Moreover, through business taxes and property tax on non-residential properties, businesses and merchants are among the largest contributors to city finances. In the case of Montreal's 2007 budget, about half of the taxes collected by the City come from non-residential properties, while this category of property represents just 24.3% of the taxable property value. Finally, 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.

Unlike private property owners, the Government of Canada enjoys a special status whereby it is completely exempt from paying property taxes – and thus the cost of municipal services its buildings nevertheless receive. While the Government of Canada and its corporations are required to pay the rates and charges incurred for services consumed directly by public buildings, those charges are generally not enough to cover the entire cost of municipal services. Compensation intended to address this shortfall is referred to as "payment in lieu of taxes." In 2007, the Government of Canada and its corporations will pay the City of Montreal an estimated $47.8 million 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 make payments in lieu of taxes equal to 100% of the local taxes on the property value of its own buildings. Such a measure would both simplify payments in lieu of taxes and increase municipal revenues.

**Recommendation:**

**That the Government of Canada adopt, for itself and its crown corporations, a simple and transparent system for payments in lieu of taxes, whereby the amounts paid would equal 100% of the local taxes on the real property value of all the buildings owned by it and its crown corporations.**

### 1.2 PUBLIC TRANSIT: SUSTAINABLE AND ESSENTIAL

Giving Montreal the necessary means also entails recognizing that the public transit system contributes greatly to the City's sustainable development. A full 57% of downtown workers use public transit to

[1] Harchaoui, Tarek M. and Faoui Tarkhani, *Public infrastructure in Canada*, Statistics Canada, November 2003.
[2] Municipal council and agglomeration budget

commute to work. Nevertheless, the number of public transit trips (by train, bus, and metro) during morning rush hour in the greater metropolitan area is 367,000, or just 20% of all motorized trips, so there is significant room for improvement.

Public transit improves the mobility of individuals, reduces the number of vehicles on the road, and improves the quality of life of residents. Moreover, it generates major economic spin-offs for the Greater Montreal area.

In fact, the economic benefits generated by public transit extend far beyond the expenditures of the region's public transit agencies. In 2003, for example, public transit saved Montreal households nearly $600 million in commuting costs, providing them with greater purchasing power that could be used for purchasing goods, cultural outings, and entertainment. Moreover, federal tax and quasi-tax revenues from activities generated by Greater Montreal's public transit agencies were estimated at $94.6 million for 2003. The Government of Canada thus collected more than $7.39 in various revenues for each $100 spent by public transit agencies.[3]

On November 28, 2005, the Quebec and Canadian governments signed an agreement whereby the federal government will pay Quebec more than $1.34 billion from the federal gas tax by the end of 2009. In 2007, the amounts paid by higher government levels to the municipalities in the Montreal Metropolitan Community (MMC) to be used for public transit are as follows: $22.9 million from transfers of the federal excise tax on gasoline, $81.2 million from the Layton amendment (an agreement ending in 2007), and $9.5 million from the Quebec Government.

Finally, despite the sums already earmarked for public transit in Greater Montreal, the Board of Trade believes that public transit agencies must receive the necessary investments to increase the market share of public transit compared to car trips. To this end, the Board of Trade has identified the following four strategies:

- ensure passenger comfort by upgrading certain public transit infrastructures and creating new infrastructures adapted to passenger needs;
- reduce travel times and increase frequencies to enhance the appeal of public transit over automobile use;
- ensure the reliability of the transit system, since this is a major comparative advantage over automobile use, which is subject to the vagaries of 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 ten years to replace and upgrade metro cars and renew fixed equipment such as concrete structures and ventilation systems.

Transfers of the federal excise tax on gasoline will provide a stable, reliable, and predictable source of funding for municipal infrastructure and public transit. The Board of Trade nevertheless hopes that the transit-funding provisions in bills C-48 and C-66 will be extended beyond the specified period and become permanent.

**Recommendation:**

**That the Government of Canada permanently transfer a portion of the excise tax on gasoline as part of its contribution to the stable, recurring, and predictable funding of infrastructures, specially public transit infrastructures.**

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

## 2. A STRATEGIC DEVELOPMENT PROJECT FOR MONTREAL

Investments designed to increase Montreal's appeal and serve as springboards for wealth creation are needed to fuel Quebec's economic engine. Among the promising development projects likely to energize Montreal, there is one that should be of particular interest to the Government of Canada.

### 2.1 MONTREAL'S HARBOURFRONT

The Montreal harbourfront development project spearheaded by the Société du Havre is one of the most ambitious urban development and planning projects in Montreal's history. Either because of the size of the territory under consideration or the magnitude of the work involved, the investments required to exploit the immense potential of the harbourfront are enormous. To ensure the high quality of this development, a partnership with the private sector will be required. But, for this to happen, the involvement of the federal government will be needed to launch the chain reaction precipitating the involvement of this sector. The Board of Trade hopes that the upgrading of the Bonaventure expressway will be begun soon to promote the redevelopment of one of the most important gateways to downtown Montreal, access to the banks of the St. Lawrence, and the creation of a public transit link between the harbourfront and downtown. This plan to redevelop the expressway would require investments of almost $800 million, but it would generate no less than $1.7 billion in private and commercial investments.

Just as the Quebec government contributed to the construction of the head office of the Caisse de dépôt et placement du Québec, the expansion of the Palais des Congrès, and the creation of the Quartier International, the undertaking of a major project, in synergy with the planners of the Société du Havre and at the behest of the federal government, could change the face of this part of Montreal.

**Recommendation:**

**That the Government of Canada invest in the redevelopment of the Bonaventure expressway and jumpstart the project to upgrade the Montreal harbourfront.**

## 3. SUPPORT FOR METROPOLITAN INNOVATION

Montreal's reputation as a knowledge city is unquestioned: the presence of four universities and four major schools on the Island of Montreal, university campuses throughout the metropolis, more than 170,000 students, and 75% of Quebec's university research speak for themselves. The importance of developing skills and innovation is also clear in an economy that, to secure its place on the world stage and set itself apart from competitors, has focused on knowledge.

### 3.1 INTEGRATING INNOVATIVE TECHNOLOGIES

Thanks to the revenues they generate and the efficiency gains they allow, innovative technologies are considered economic engines: they promote wealth creation, embodied, in part, by the creation of high value-added jobs. The integration of innovative technologies – in both production processes and the managerial culture – should enable us to improve our position among competitors, which are also increasingly targeting high value-added economic activities. We must therefore use innovations to improve our productivity, support our creativity, and create the conditions necessary for the development of new technologies.

To rise to the challenges posed by competition from countries such as China and India, Quebec must develop its talent pool along with an advantageous tax system. Its competitive position will increasingly depend on its ability to develop and exploit its know-how to the maximum. The strong competition offered by economies benefiting from the ability to pay very low wages means that Canadian companies must position themselves through their ability to surpass competitors in ways other than by racing to pay the lowest wages. It is thus imperative to promote the transformation of local SMEs into global SMEs, which must first of all be innovative.

**Recommendation:**

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| **That targeted tax measures with specific parameters be implemented to promote the integration of innovative technologies within our companies – particularly SMEs.** |

#### 3.2 COMMERCIALIZING INNOVATIONS

The *Global Competitiveness Index* ranks Canada 16$^{th}$ out of 125 countries in terms of competitiveness: having dropped three places since 2005, Canada's economy now ranks behind those of Singapore, the United States, Japan, Hong Kong, and Taiwan. Since innovation is one of the factors enhancing an economy's competitiveness, Canada must work harder to promote discovery as well as the marketing of its innovations.

The presence of effective R&D support mechanisms enables Canadian companies to achieve a certain degree of success in the first steps of the innovation process. The weak link in the innovation chain is the commercialization of discoveries. We must therefore work to ensure that our companies, particularly SMEs, can market the innovations they develop. In fact, the commercialization of our innovations is the principal way to assess, share, and take full advantage of research and development. The adoption of tax measures, such as carefully targeted tax credits, would promote the implementation and transfer of R&D results. Such measures would improve the ability of our companies to maintain their competitiveness and improve their positioning by maximizing the spin-offs of their innovations rather than just standing by while foreign companies commercialized them in their place.

**Recommendation:**

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| **That tax credits with specific parameters be implemented to promote and support the commercialization of innovations.** |

## 4. SUPPORT FOR INTERNATIONAL TRADE

For the Board of Trade, the economic competitiveness of Greater Montreal is largely dependent on the success of its companies in foreign markets and their ability to invest in their own success.

### 4.1 SUPPORTING FOREIGN DIRECT INVESTMENT

Foreign direct investment (FDI) is one of the many components of international trade, and in recent decades it has grown considerably. According to the United Nations Conference on Trade and Development (UNCTAD), the total value of FDI throughout the world was US$53.7 billion in 1980. Ten years later, that figure had jumped to US$238.7 billion, and, by 2000, it had reached $1.2 trillion. After a slight slowdown, it then picked up speed again, soaring to US$730.2 billion in 2004.

FDI offers many benefits. According to an OECD study[4], every dollar invested outside the country results in two dollars of additional exports and a trade surplus of $1.70 for the country making the investment. Moreover, outward FDI offers a powerful mechanism for accessing foreign markets. In fact, through FDI, exported finished products are gradually replaced by high value-added intermediate products and by services offered by the parent companies of foreign subsidiaries.

Yet Canada could be much more present in international markets and take fuller advantage of the benefits such investments could bring. Moreover, companies that participate in FDI are usually major corporations[5]. In comparison, SMEs, which dominate the country's economic fabric, are relatively under-represented in the global economy. This may be because international activities expose SMEs to a more complex and risky business environment for which, compared to major corporations, they are relatively unprepared and have far fewer resources – particularly financing tools for FDI projects.

Canada offers no real financial support to companies wishing to invest overseas. While many economic development agencies are mandated to attract foreign investment to Canada, there are very few concrete measures to promote direct investments by Canadians abroad. The other G7 countries have already established their own foreign direct investment funds (FDIF). Today, there are some twenty FDIF in Europe, two in Asia, and one in North America, all charged with providing equity, quasi-equity, loans, technical assistance, risk insurance, etc.

Unfortunately, Canada has no equivalent fund. Of course there is the Canada Investment Fund for Africa (CIFA), but it is limited to a specific geographic region and is open to all private investors, whether they are Canadian or not. In addition, since CIFA investments are between US$5 and 50 million, they are less accessible to Canadian SMEs. In this context, the Board of Trade believes that a strategy to support FDI should be developed, with particular attention paid to SMEs.

**Recommendation:**

**That a strategy supporting foreign direct investment should be made available to Canadian SMEs.**

## 5. ATTRACTING, TRAINING, AND RETAINING TALENT IN MONTREAL

An economy's innovative capacity is closely linked to the level of talent and education of its workforce. Greater importance must be placed on this new reality now that demographic growth is slowing and the population is aging. The vital issue of talent can no longer be dealt with solely by developing local talent, particularly given that, within just a few years, the net growth of our labour force will depend primarily on immigration. Canada must strive to attract – and permanently retain – skilled workers from around the world looking for a better place to live and develop their talent. The government would thus do well to support the knowledge economy by increasing its contribution to university funding.

### 5.1 INCREASING THE RESOURCES OF INSTITUTIONS OF HIGHER EDUCATION

As home to more than 60% of Quebec's university students, Greater Montreal is clearly the major hub of university activity in Quebec: almost 75% of Quebec's university R&D is carried out in metropolitan

[4] OECD, *Open Markets Matter: The Benefits of Trade and Investment Liberalization*, Paris, 1998.
[5] In fact, according to a KPMG study, 97.14% of FDI carried out by Canadian companies in 1998 were transactions of more than C$100 M, the majority of which involved mergers and acquisitions.

Montreal[6], which thus ranks first among Canadian cities for intensity of university research[7]. It will be recalled that, in 2001, the spin-offs from this university research activity were assessed at $2.5 billion[8]. In addition, many private companies maintain close business ties with universities, to the benefit of Greater Montreal's knowledge, biotechnology, and high technology sectors.

Universities nevertheless face enormous on-going funding challenges in a context of international competition. A greater investment in universities would help Montreal attract, train, and retain more talented young people from around the world, who would then contribute to the region's full development.

The Board of Trade believes that more funds should be allocated to the university system to maintain high-quality teaching and develop research activities and that, to promote the improved funding of universities, the government should enhance tax incentives encouraging companies and individuals to contribute.

**Recommendations:**

**That additional funds be allocated to the university system to maintain high-quality teaching and develop research activities.**

**That the Government enhance tax incentives encouraging companies and individuals to contribute to university funding.**

## 6. CULTURE AS AN ENGINE OF METROPOLITAN DEVELOPMENT

Montreal is particularly spoiled by its wealth of artistic talent. The determination and inventiveness of its creators have lead to a level of cultural vitality that is one of the City's greatest assets. Today, culture is a fundamental component not only of Montreal's identity but also of its quality of life, allowing the City to attract and retain talent. This sector, whose successes on the international stage are an inspiration to all economic players in the metropolitan area, serves to leverage the city's development.

The Board of Trade therefore strives to promote the development and reputation of this incomparable asset. The cultural milieu has much to contribute to the economic milieu, beginning with a major direct contribution to the gross domestic product. In Montreal, the cultural sector generates annual spin-offs of almost $5 billion along with some 90,000 direct and indirect jobs.[9] It also helps attract the more than seven million visitors who come to Montreal each year to enjoy its major festivals, museum exhibitions, its orchestra's concerts, dance performances, and theatrical productions.

### 6.1 INCREASING THE BUDGET OF THE CANADA COUNCIL FOR THE ARTS

At a time when international competition is played out primarily between major urban centres, it has become essential for cities to create an environment conducive to wealth creation, and to do this, they must offer an excellent quality of life. In this regard, the public funding of Montreal's artistic organizations via the Canada Council for the Arts is needed to support one of Montreal's most distinctive characteristics: its cultural vitality.

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[6] Fernand MARTIN, *Savoir et croissance, les universités : catalyseurs du Montréal métropolitain – Les retombées économiques*, Université de Montréal, February 2004, p. 9.

[7] Research Infosource, Canada's Top 20 Research Communities. http://www.researchinfosource.com/media/2006Top20ListSup.pdf

[8] Fernand Martin, op cit, p. 8.

[9] Board of Trade of Metropolitan Montreal, The private funding of culture, November 2005.

In May 2005, the budget of the Canada Council for the Arts, set at $156 million, received additional funding of $50 million over two years ($20 million in 2006 and $30 million in 2007), thereby increasing to $186 million in 2007. The Board of Trade of Metropolitan Montreal would like to see this budget receive a permanent increase of $100 million, to a total of $286 million.

**Recommendation:**

**That the Government of Canada permanently increase the budget of the Canada Council for the Arts.**

### 6.2 MAINTAINING FUNDING OF INTERNATIONAL TOURS

It was recently revealed that when Montreal is mentioned in foreign media (aside from in the sports pages), it is generally with regard to cultural activities.[10] The enormous creativity of our artists raises our profile around the world when they proudly and enthusiastically represent us on the international stage. The Canadian government's financial support of artistic tours helps make this global presence possible.

The Board of Trade is therefore concerned about the budget cutbacks to various programs announced last September. As part of this series of cuts, it was announced that the Public diplomacy bureau, which includes the International cultural relations program (support for artistic tours), will be slashed by $12 million over two years.

While this amount may seem minimal in relation to the goal of achieving overall budgetary reductions of $1 billion, this measure will clearly have a significant impact on the overseas representation of Montreal's artistic companies, which often rely on government subsidies to finance tours. The international tours of these organizations contribute greatly to maintaining and strengthening the renown of Canada and the reputation of Montreal as a vibrant cultural metropolis. It is therefore essential to continue funding the international tours of Canadian artists.

**Recommendation:**

**That the Government of Canada continue funding the international tours of Canadian artists.**

### 6.3 THE PRIVATE FUNDING OF CULTURE

The Board of Trade is convinced that the cultural milieu has much to contribute to the economic milieu. This includes not only a major direct contribution to the gross domestic product but also invaluable inspiration for the entire business community. We therefore believe that Montreal's cultural vitality is one of the City's most valuable assets and that it is in the best interests of the business community to support the cultural community more effectively and to work more closely with it.

In focusing on ways to increase the contribution of the private sector, we certainly don't mean to suggest that the withdrawal of government funding would be either desirable or feasible. On the contrary, we simply wish to stress the extraordinary opportunity we have to further strengthen the contribution of culture to the success and reputation of Montreal by encouraging the private sector to also become one of its valued partners. As the results of a recent Board of Trade study have highlighted the inadequate contribution of the private sector to the funding of culture, we recommend that the Government of

[10] Study by Influence Communication between August 22, 2005, and August 21, 2006, of the fifty largest U.S. newspapers.

Canada implement new tax measures designed to encourage companies to provide long-term financial support to the cultural community.

Simple and innovative incentives would no doubt create a ripple and demonstration effect, stimulating Quebec's emerging philanthropic culture. As the baby boomer generation reaches maturity, a time more conducive to supporting charitable agencies, the time is ripe for educating and encouraging this influential group to become more philanthropic.

**Recommendation:**

**That the Government of Canada implement tax measures encouraging companies to participate more fully in the funding of culture**

## Conclusion

As economic engines, the metropolitan regions contribute more than ever to Canada's prosperity. In the global context of an economy based on knowledge and innovation, this role is likely to become even more pronounced.

Given this reality, the development of certain metropolitan regions must, above all, not be viewed as detrimental to that of others. We must not imagine that the prosperity of some diverts resources needed for the development of others. On the contrary, it is in Canada's best interests to ensure that its economic engines run at full throttle and to equip them with the tools needed to maximize their potential. Montreal is undeniably a major asset to Canada, an asset the Canadian government would do well to develop.

It is with this in mind that the Board of Trade has presented not only the budget expectations of its members but also proposals for improving the economic performance of the metropolitan regions and, by extension, of Canada as a whole. In this same constructive spirit, the Board of Trade would like to assure the government of its desire to work together on concrete measures vital to the economic development of Montreal.