

2013-2014 PREBUDGET RECOMMENDATIONS TO THE GOVERNMENT OF CANADA



January 2013

January 29, 2013

The Honourable James M. Flaherty
Minister of Finance
Department of Finance Canada
140 O'Connor St.
Ottawa, Ontario K1A 0G5

Subject: 2013-2014 prebudget recommendations

Dear Minister,

On behalf of the Board of Trade of Metropolitan Montreal, allow me to share our recommendations for the Government of Canada's next budget.

Our recommendations are in line with the government's efforts to date in a global economic context that remains difficult. The euro zone is once again in recession, the American recovery is still fragile and China and other major emerging economies are experiencing a slowdown in growth.

Fortunately, the Canadian economy has been one of the most resilient among G7 countries, both during the recession and during the recovery. Canada continues its economic growth, and the job market continues its expansion. Nevertheless, the Canadian economy is not immune to global economic turbulence. The effects of the economic downturn of our main trading partners on our own economy are worrisome both nationally and for the Montréal metropolitan area. The city's businesses have to deal with greater uncertainty, while tackling our particular challenges, i.e., our disappointing performance in productivity and the shrinking labour pool.

The Government of Canada must continue its vigilance in budget planning. It needs to strike a balance between regaining budget flexibility and not stifling our limited economic growth. We recommend that the government stay the course for a balanced budget, without increasing the taxpayer burden. It should pay particular attention to measures to stimulate private investment. The high level of household debt could slow consumer spending, and exports will continue to suffer the effects of the world economic slowdown. In this context, increased private investment is needed to support economic growth in Canada. The government must also concentrate public investment on projects likely to increase the general efficiency of the economy, both in terms of infrastructure and public programs. Finally, it must continue to target measures that will have a rapid, positive impact on business and worker productivity.

Our recommendations are aimed at strengthening the Canadian economy and that of the Montréal metropolitan area.

RECOMMENDATIONS OF THE BOARD OF TRADE OF METROPOLITAN MONTREAL

I. Stay the course for a balanced budget without increasing the tax burden

Following the plan to balance the budget is essential for our collective prosperity. It sends a positive signal to investors and, consequently, helps maintain our credit rating. It also allows the government to regain some budget leeway, which is important in a context of increased uncertainty. Furthermore, low interest rates are an opportunity to repay part of the public debt and continue to take the lead over other industrialized countries.

We are aware that the worsening world economic outlook has had a bearish effect on commodity prices, expectations for nominal GDP and, as a result, on the Government of Canada's tax revenue. These concerns led the government to consider putting off balancing the budget to 2016-2017. **However, we remain convinced that, if the world economy does not deteriorate further, the low deficit anticipated for 2015-2016 and the budget flexibility the government creates combined with better rationalization of spending will allow the government to meet its zero deficit target in 2015-2016, as initially planned.**

Balancing the budget should be accomplished through reduced spending, rather than increasing the tax burden, to avoid stifling the still fragile economic growth. The government must therefore:

- **Avoid increasing the tax burden of individuals and businesses.** Increasing the tax burden of businesses hampers their competitiveness, and increasing the tax burden of individuals can be a curb on hiring. In a context where net exports will continue to suffer from the weakness of our main trading partners and the strength of our loonie, we have to pay greater attention to domestic demand. An increase in the tax burden would reduce household disposable income, weaken domestic demand and undermine businesses. The Board of Trade also encourages the government to maintain the corporate tax rate at a level that is competitive internationally.
- **Continue to review and rationalize public spending.** A weaker than anticipated outlook for growth increases the need to review programs in greater depth to balance the federal budget. The government must therefore conduct a systematic study of all spending and determine which no longer makes sense. It should increase the productivity of its departments and evaluate possible savings within programs. It should also limit growth in program spending. This is a difficult exercise, but one that is essential to maintain a balanced budget in the long term, particular with an aging population and its potential impact on the government's budget.
- **Maintain transfers to the provinces.** One of the issues the provinces will be facing in the coming years is a sharp increase in health care spending. As a result, maintaining transfers to the provinces is essential to supporting economic growth for all of Canada.

Recommendation 1. Stay the course for a balanced budget in 2015-2016:

- Without increasing the tax burden on individuals and companies;
- By continuing to review and rationalize public spending;
- By maintaining transfers to provinces.

II. Prioritize and support federal structuring urban infrastructure projects

Public investments in infrastructure play a strategic role in the country's economic performance. They stimulate the economy and help improve productivity, the ability to attract investment and the standard of living.

A recent report by the Federation of Canadian Municipalities (FCM) pointed to the extent of the problem of underinvestment in infrastructure in recent years.¹ In terms of road infrastructure alone, the report indicates that the average Canadian worker spends the equivalent of 32 working days in traffic. According to the Municipal Infrastructure Forum, this loss of productivity comes at a cost of around \$10 billion to the Canadian economy.² For the Montréal metropolitan area alone, costs related to traffic were an estimated \$1.4 billion in 2003,³ costs that can only have increased since.

To increase our productivity and attract foreign investment, we must improve the flow of people and merchandise. To do this, the government needs to prioritize and support structuring public infrastructure projects for our economy, in road, naval, air and rail transport, as well as public transit.

A. Focus on the city's port and maritime development

Port and maritime infrastructures are essential to facilitating and increasing the transport of merchandise, contributing to the rapid development of international trade. Because of the many economic spin-offs in growth and employment for the city and for Canada as a whole, we ask the government to:

- **See that the Port of Montreal reaches its full potential in economic development, using a collaborative approach. The Ontario-Quebec Continental Gateway is a key part of the city's merchandise transport system.** It is a strategic gateway for international trade in that it offers direct access to the heart of the United States and is a hub for trade toward the Great Lakes. The possibility of a free trade agreement between Europe and Canada makes this port particularly strategic. The recent refurbishment of the CAST terminal, allowing it to handle more containers, is a step in the right direction. The city recently inaugurated the Metropolitan Logistics and Transportation Cluster to develop this sector through close collaboration and consultations among the different players. The government must take note of the will and mobilization of actors to take part in initiatives

¹ FEDERATION OF CANADIAN MUNICIPALITIES. November 2012. *The Road to Jobs and Growth: Solving Canada's Municipal Infrastructure Challenge*, Submission to the Government of Canada's Long-Term Infrastructure Plan Consultation

² FEDERATION OF CANADIAN MUNICIPALITIES. November 8, 2012. *Federal infrastructure plan must protect Canada's local economic foundations, says national coalition*.

³ BOARD OF TRADE OF METROPOLITAN MONTREAL. November 2010. *Public transit: At the heart of Montréal's economic development*.

that will secure the metropolitan area's role as a leader in this area, in particular through the modernization of port entrances.

- **Collaborate on developing the Old Port of Montreal.** The Old Port is strategic for tourism and the economy of the metropolitan area. For the government, it represents an opportunity to contribute to the city's reputation and economic development. In spite of recent changes to the governance structure of the Old Port Corporation, we ask that the government move ahead with different modernization projects, in particular the construction of a new maritime terminal. The existing terminal is not adequate for receiving a sufficient number of large cruise ships, and its general state reflects its age. A new modern building would increase Montréal's influence with an international clientele of reputed cruise operators.

Recommendation 2. To focus on the city's maritime and port development, the government must:

- Use a collaborative approach, ensure that the Port of Montreal reaches its full potential in economic development. The Ontario-Quebec Continental Gateway is a key part of the city's merchandise transport system;
- Collaborate on the development project for the Old Port of Montreal.

B. Increase the competitiveness of our airport infrastructures

Airport infrastructures are an essential economic driver for the city. They promote business, trade and tourism and, as a result, contribute to the competitiveness of the Montréal area and all of Canada. We ask the government to gradually reduce the rent for Montréal-Trudeau International Airport, in order to increase the competitiveness of air fares at the Airport compared with those of other North American airports. The rent for Montréal-Trudeau Airport increases the costs of air transport and limits our competitiveness. Many Montréal travellers cross the border to take advantage of lower American fares. According to the report of the Standing Senate Committee on Transport and Communications,⁴ 85% of passengers at the Plattsburgh International Airport, located one hour south of Montréal, come from Canada. Airports should be seen as an economic driver and not as a source of revenue for the government. Reducing fares will stimulate air travel and, as a result, create important economic spin-offs for the Montréal area and all of Canada.

Recommendation 3. To improve the competitiveness of our airport infrastructure, the government must gradually reduce the rent for Montréal-Trudeau Airport.

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

C. Complete the Champlain Bridge, a symbol of Canadian creativity and pride, within six years

The Montréal business community needs a modern, efficient bridge as soon as possible. The Board of Trade asks that **the decision-making process surrounding the construction of the new Champlain Bridge be streamlined so that the bridge can be completed in six years rather than in ten as announced.** This bridge is a strategic link, not only for the Montréal metropolitan area, but also for Canada as a whole, because an estimated \$20 billion in international trade crosses it annually. The Board of Trade encourages the government to reach a consensus with the provinces and municipalities, particularly with respect to public transit, to move quickly to complete the bridge. **The Board of Trade also asks the government to pay particular attention to the design of the bridge so that it can be a symbol of creativity for the city and pride for Canada.**

Recommendation 4. Streamline the decision-making process surrounding the construction of the new Champlain Bridge so that it can be completed in six years rather than ten as announced.

D. Establish a national public transit strategy

The Board of Trade's study on public transit, published in 2010, demonstrates the importance of public transit in improving traffic flow and reducing the cost of congestion, thereby increasing our productivity.⁵

The Board of Trade asks the Government of Canada to implement a national public transit strategy. This strategy must come on the heels of widespread consultations with provinces and major cities. Such a strategy would provide a comprehensive view of our objectives and the means available to achieve them. Major investments in public transit infrastructure require stable, predictable and recurrent financing, which a national strategy would establish. This is essential to improving the mobility of people and merchandise. Thanks to Quebec's industrial base, investments in public transit have a significant multiplier effect that cannot be ignored. They encourage the development of promising new technologies that can make Canada a leader in environmental innovation. An efficient public transit network will enhance the image of Canada and its cities and promote it as a great place to live and travel.

Recommendation 5. Initiate widespread consultations as soon as possible to develop a national public transit strategy.

⁵ BOARD OF TRADE OF METROPOLITAN MONTREAL. November 2010. *Public transit: At the heart of Montréal's economic development.*

E. Review major project financing and propose innovative avenues

Given the current state of public finances, we are aware that the government cannot be solely responsible for the cost of the major infrastructures needed for our productivity. That said, 2014 is a very important year, because many funds will be renewed. The government needs to take advantage of the renewal of the Building Canada Fund to ensure that public transit projects remain eligible for this program. The renewal of the Gas Tax Fund should be the opportunity to consider a possible increase that would serve to rebuild and modernize urban infrastructures. The PPP Canada program is a great example of an interesting avenue to reduce pressure on the public purse while going ahead with the projects needed to improve our infrastructures. The creation of an *Agence métropolitaine de transport* (AMT) maintenance centre in Lachine demonstrates the value of this program, which provides for a more effective allocation of resources and better risk management. The government must engage in sustained promotion of this program to local governments and public transit agencies.

Recommendation 6. To finance major strategic urban infrastructure projects, the government must take advantage of the renewal of major federal funds and propose innovative avenues for project financing and governance.

- **Building Canada Fund.** Public transit infrastructure projects must continue to be eligible for the Building Canada Fund.
- **Gas Tax Fund.** The government can take advantage of this fund's renewal to study the possibility of increasing the federal contribution.
- **The PPP Canada program.** The government could better promote the PPP Canada program as a useful alternative for project governance and financing.

III. Better support our businesses and increase the productivity and competitiveness of our economy

Quebec and Canada are facing major challenges in terms of the aging population and productivity. Furthermore, projected weak economic growth worldwide and a dollar that remains strong demonstrate the need to focus on increasing business productivity and competitiveness to ensure our economy's long-term prosperity.

A. Step up the federal government's support to businesses on international markets

Increased uncertainty surrounding the world economic outlook, the weakening economies of our main trading partners, the expected drop in commodity prices and, of course, the strength of the loonie have all had a major impact on the trade balance of Canada and Quebec. It is therefore essential that the government continue its support to businesses to improve their competitiveness and encourage them to do business internationally. We ask the government to:

- **Raise awareness among businesses and give them tools they need for their internationalization and market diversification efforts.** The government must

increase its financial support to business development organizations – particularly for small business – to do business internationally. This is absolutely essential to counteract the reluctance of small businesses to penetrate new markets in a difficult global context.

- **Pursue its trade policy of market diversification and the facilitation of trade.** The Board of Trade welcomes the government's initiatives to strengthen trade ties with other markets with strong potential. The agreements currently being negotiated, including those between Canada and the European Union and India, are good examples of this. We encourage the government to pursue negotiations with other promising regions, such as the Trans-Pacific Partnership. In the case of the Canada-EU Trade Agreement (CETA), the Board of Trade reiterates the importance of the government finding mutually profitable grounds for agreement with the European Union as soon as possible, so as not to delay the signature of this agreement.

Recommendation 7. Reinforce federal government support to businesses on international markets by:

- Increasing its financial support to business development organizations – particularly for small business – to do business internationally.
- Pursue its trade policy of market diversification and the facilitation of trade.

B. Pursue initiatives to increase Canadian business innovation

Innovation is the main driver of productivity. And yet, Canada and Quebec are lagging behind other developed countries in business innovation, a situation that restricts Canada's competitiveness and our standard of living.

Following the November 2011 publication of the expert report *Innovation Canada: A Call to Action*, intended to examine federal support to R&D and simplify and better target its funding, the Government of Canada adopted – in its last budget – important measures to stimulate innovation. We encourage it to pursue these initiatives, in particular by rationalizing and bringing together all federal business innovation programs into a single portal and by promoting better collaboration among businesses, universities and provinces. The government must also promote direct financing, because it is more likely to have an impact on business innovation. Furthermore, the government needs to put in place measures to encourage businesses to increase their investment in information and communication technologies, essential to increasing our productivity.

Recommendation 8. The government must pursue initiatives to increase business innovation:

- By implementing recommendations from the expert panel report on federal support to R&D;
- By focusing on direct funding of innovation;
- By stimulating investment in information and communication technologies.

C. Encourage entrepreneurship and support the creation and development of small businesses

Small businesses are essential to wealth creation and the country's prosperity. Alone they account for almost 99% of businesses and over 20% of the GDP.

The government must continue to support businesses, in particular by facilitating access to financing and raising awareness of the advantages of entrepreneurship. We also encourage it to rationalize and restructure its business development programs so that they are more efficient in supporting and promoting entrepreneurship.

Recommendation 9. Continue to support businesses, in particular by facilitating access to financing and raising awareness of the advantages of entrepreneurship. The government should also rationalize and bring together all of its business development programs.

D. Continue to reduce red tape for small businesses

Red tape hampers growth, productivity and innovation in business. Too often companies spend their time and energy complying with government administrative requirements, when they should be concentrating on doing business. A balance needs to be struck between thoroughness, standardization of practices, transparency sought by government and business productivity.

To this end, we applaud the federal government's development – following the report of the Red Tape Reduction Commission – in October 2012, of the Action Plan to Reduce Red Tape, the objective of which is to reduce the administrative burden on businesses. We encourage the government to implement the measures in the Action Plan as soon as possible to **reduce red tape for small businesses and quickly make them more competitive.**

Recommendation 10. Implement the measures of the Action Plan to Reduce Red Tape for small businesses as soon as possible, to quickly make them more competitive.

In conclusion, the government should take advantage of the relative resilience of the Canadian economy to balance the budget according to the original schedule. It must also go ahead with major structuring infrastructure projects for our economy and pursue measures to better support businesses and increase productivity. This is essential to ensuring the long-term prosperity of Canada and the Montréal area.

Please rest assured of the Board of Trade's complete cooperation in the economic development of Canada and the Montréal metropolitan area.

Sincerely,

Michel Leblanc
President and CEO

**Overview of recommendations
from the Board of Trade of Metropolitan Montreal**

I. Stay the course for a balanced budget

- A. Do not increase the tax burden on individuals and companies
- B. Continue to review and rationalize public spending
- C. Maintain transfers to the provinces

II. Prioritize and support federal structuring urban infrastructure projects

- A. Focus on the city's maritime and port development
- B. Improve the competitiveness of our airport infrastructure
- C. Complete the Champlain Bridge, a symbol of Canadian creativity and pride, within six years
- D. Establish a national strategy on public transit
- E. Review the financing of major projects and propose innovative avenues

III. Better support businesses and increase the productivity and competitiveness of our economy

- A. Step up federal government support to businesses on international markets
- B. Pursue initiatives to increase Canadian business innovation
- C. Encourage entrepreneurship and support the creation and development of small businesses
- D. Continue to reduce red tape for small businesses