la Chambre de commerce
du Montréal métropolitain

For a sustainable recovery: fiscal discipline and targeted investments

Recommendations for the 2022-2023 Budget

Submission to the Honourable Chrystia Freeland, Canada’s Deputy Prime Minister and Minister of Finance

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Background

With a network of over 8,000 members, the Chamber of Commerce of Metropolitan Montreal is active on two fronts: being the voice of the Montréal business community and delivering specialized services to businesses and their employees. With its finger on the pulse of current events, it acts on issues that are decisive for the prosperity of the city's businesses. With the support of its Acclr experts, the CCMM's goal is to accelerate the creation and growth of businesses of all sizes, at home and around the world.

This brief presents the Chamber's recommendations for the Government of Canada's 2022-2023 budget.

Introduction

In 2021 we were faced with a number of headwinds.

1. Emerging from the pandemic, we began to see signs of strong economic recovery in Canada and around the world. According to the International Monetary Fund (IMF), global growth reached 5.9% in 2021, more than offsetting the 3.1% decline in 2020.[1]
2. This recovery was buoyed by a strong increase in demand. Highly accommodating monetary policies, introduced simultaneously here and elsewhere, coupled with generous government support for individuals and businesses, helped to create conditions conducive to consumption and investment.
3. The strength of the recovery led to an immediate rebound in domestic employment. The December unemployment rates for Canada, Quebec and Greater Montréal were 5.9%, 4.6% and 4.8% respectively. These levels fall below their equilibrium rates.[2,3] In fact, Canada, and Quebec in particular, is facing a severe labour shortage in all sectors and at all levels of employment. This shortage limits businesses' ability to expand their service offer and causes wage inflation, which often heralds a persistent inflation cycle.
4. Inflationary pressures began ramping up in early 2021. While initially seen as temporary by central banks, this inflation has been fuelled by supply chain breakdowns that have hindered suppliers' ability to adapt to demand.
5. At the end of 2021, the emergence of a new COVID-19 variant, Omicron (less virulent but much more contagious than previous strains), led to the reimposition of restrictions. These measures will likely reduce GDP growth in the first quarter of 2022 but they are not expected to derail recovery or curb inflationary pressures.
6. Finally, several of the sectors that drive Canada's major cities, including tourism, air travel, the creative and cultural industries, restaurants and downtowns, continue to experience declining demand and will require public assistance for many months.

Canada, and Quebec in particular, is currently enjoying a strong recovery. Statistics Canada projects that the Canadian economy will grow by 4.9% in 2021.[4] As for Quebec, the Institut de la statistique du Québec

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[1] International Monetary Fund, *World Economic Outlook: Recovery During a Pandemic*, October 2021, [Online], https://www.imf.org/en/Publications/WEO/Issues/2021/10/12/world-economic-outlook-october-2021

[2] Desjardins Economic Studies, *How Has the Equilibrium Unemployment Rate Evolved in the Administrative Regions of Quebec?*, September 2, 2021, [Online], https://www.desjardins.com/ressources/pdf/pv090221e.pdf

[3] Institut de la statistique du Québec, *Emploi et taux de chômage, Québec, Canada, provinces canadiennes et RMR de Montréal*, [Online], https://statistique.quebec.ca/fr/produit/tableau/4089#tri_annee=2022&tri_mois=1980865

[4] Statistics Canada, *The Daily – Gross domestic product by industry, November 2021*, February 1, 2022, [Online], https://www150.statcan.gc.ca/n1/daily-quotidien/220201/dq220201a-eng.htm

reports that for the first ten months of 2021, GDP was 6.9% higher than for the same months in 2020.[5] This resilience bodes well for 2022. The Government of Canada is forecasting growth of 4.2%, a scenario corroborated by the IMF and Canadian financial institutions.[6]

As for Greater Montréal, according to a survey conducted by the Chamber in December 2021, 86% of respondents reported being very (20%) or somewhat (66%) confident about Canada's economic prospects in the coming year.[7] Respondents also expect to see increased hiring, sales and investment this year, particularly in digital technologies.[8,9]

Despite this positive outlook, there is a risk that the announced interest rate hikes for 2022 will stall the momentum of entrepreneurs and consumers alike. The challenge will be to maintain a solid economic performance without unduly increasing inflationary pressures.

Fiscal discipline

This kind of growth is welcome after such an enormous crisis. However, the spectre of inflation and labour constraints gives cause for concern. The solution involves recalibrating the government's budgetary policy to make it less expansionary, through strict fiscal discipline.

The first step will be the continued phasing out of the personal and business support measures that were put in place during the pandemic. The final withdrawal of these programs will require a period of adjustment for some SMEs and this must be taken into account.

Even greater discipline will be needed as the country faces other challenges requiring significant financial investment from the federal government.

1. The government will be called upon to assist the efforts of businesses and individuals in meeting increasingly ambitious greenhouse gas reduction targets, and to support the transformation of economic structures of provinces that rely heavily on hydrocarbon resources.
2. It will need to increase health transfers to help provinces strengthen their health systems, which were proven to be ill-prepared for the pandemic.
3. Finally, the federal government must continue providing support for rural communities to accelerate their connection to high-speed Internet and speed the economy's digital transformation.

Targeted actions and investments

The labour shortage is generating a great deal of pressure and is a major cause for concern among Montréal's entrepreneurs. Business owners tell us they will be unable to simultaneously meet demand, develop new products and enter new markets if labour remains scarce, wages continue to mount and supply chain issues persist.

This problem requires urgent action on several fronts.

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[5] Institut de la statistique du Québec, *Gross domestic product by industry, October 2021*, January 25, 2022, [Online], https://statistique.quebec.ca/en/communique/quebecs-real-gdp-at-basic-prices-up-0-point-1-percent-in-october-2021

[6] Government of Canada, *Economic and Fiscal Update 2021*, [Online], https://www.budget.gc.ca/efu-meb/2021/report-rapport/EFU-MEB-2021-EN.pdf

[7] CCMM survey conducted December 8–21, 2021, 240 respondents.

[8] RBC Economics, *Provinces to enter advanced stages of recovery in 2022*, December 2, 2021, [Online], https://thoughtleadership.rbc.com/provinces-enter-advanced-stages-of-recovery-in-2022/

[9] Business Development Bank of Canada, *Canadian Entrepreneurs' 2022 Investment Outlook*, December 2021, [Online], https://www.bdc.ca/en/about/analysis-research/investment-intentions-canadian-entrepreneurs-outlook

- Companies will need support to complete their digital transition quickly and invest heavily in equipment to automate their processes.
- There is a *real, short-term* need to speed up the immigration process. This represents one of the only solutions to the labour shortage that promises quick results.
- On top of workforce and productivity issues, the green shift presents yet a third challenge. The Chamber supports the Canadian government's objectives to reduce greenhouse gas emissions. SMEs are in urgent need of support to take the necessary steps and invest in equipment to reduce their carbon footprint.
- A strategy is needed that will strengthen our cities' downtowns and prevent the structural collapse of Canada's major urban centres, which are essential to our economic vitality and which have been particularly impacted by pandemic restrictions.
- We will also need to deploy a new strategy to increase our exports. Our economic performance hinges on our ability to successfully export our products and services. Unfortunately, we are witnessing a deterioration in the quality of relationships between geopolitical blocs, which threatens the fluidity of trade. Access to our continental neighbour and main trading partner is under pressure. We must act.
- At the same time, we need to take major steps to strengthen Canada's domestic market by reducing interprovincial barriers, increasing our efforts to improve the flow of trade among Canada's provinces and territories.
- Finally, the next budget must consolidate the economic sectors of the future that are poised to fuel our sustainable recovery. Aeronautics, artificial intelligence, life sciences, electric vehicle industries and their components all require support. This is of strategic, even critical importance for our future prosperity.

Five priorities for the 2022-2023 budget

In light of the current context, the Chamber has identified five priorities to help guide the preparation of the next federal budget.

1. Solving the labour shortage problem
2. Accelerating the digital transformation and greening of businesses
3. Creating an environment conducive to increased interprovincial and international trade
4. Supporting Montréal's key sectors and investing in the modernization of its strategic infrastructure
5. Maintaining fiscal discipline to limit the budget's impact on inflationary pressures

1. SOLVING THE LABOUR SHORTAGE PROBLEM

The current labour shortage represents a problem of historic proportions. Job vacancies and vacancy rates are alarmingly high.[10] In Quebec, this figure peaked in October at 249,500, or a rate of 6.3%—one of the highest rates in Canada alongside British Columbia. This number is nearly double what it was in the fourth quarter of 2019, just prior to the pandemic (126,730, or 3.3%).

Our December 2021 survey confirmed that workforce availability is rising to the top of companies' concerns, with 78% naming it one of their most immediate issues, and 40% labelling it their top issue.[11]

[10] Statistics Canada, *Table 14-10-0325-01 Job vacancies, payroll employees, job vacancy rate, and average offered hourly wage by provinces and territories, quarterly, unadjusted for seasonality*, [Online], https://www150.statcan.gc.ca/t1/tbl1/en/tv.action?pid=1410032501

[11] CCMM survey conducted December 8–21, 2021, 240 respondents; total percentage may exceed 100% as respondents could select multiple responses.

Businesses have identified three preferred solutions: offering better working conditions and wages (51% of respondents), raising immigration thresholds (50%) and improving credential recognition for immigrants (49%).

The impacts of the labour shortage are real. Hiring opportunities are multiplying in all sectors and regions, and the time required to find candidates is increasing. In the manufacturing sector, a spring survey conducted by Manufacturiers et Exportateurs du Québec revealed that the lack of workers is believed to have caused revenue losses of more than $18 billion over the past two years due to lost contracts, late penalties and downsizing.[12] The restaurant industry has seen the disappearance of several players, as well as a reduction in opening hours and a significant increase in prices.

The short- and medium-term outlooks are not positive, making this problem all the more worrying. The population will continue to age throughout the next decade and less and less talent will be available for work. That said, unemployment and employment rates for immigrant workers have almost caught up with those of native-born Canadians, which is obviously good news.

Two observations may be noted. First, the ability to meet businesses' needs is becoming increasingly tenuous. Second, government measures have not had the desired effects, nor will they produce immediate results.

In November, Quebec launched "Opération main-d'œuvre," a $2.9 billion package of measures aimed at addressing the labour shortage. Although we welcomed this plan, it is primarily aimed at the public sector and will only have a significant impact in the medium to long term.

In this context, the Chamber calls on the Government of Canada to develop its own action plan, in addition to that of Quebec, to address the shortage. In the immediate term, we stress the need for two essential steps: (1) improve immigration processes to dramatically reduce delays and greatly increase arrivals, and (2) introduce highly incentive-based tax measures to keep experienced workers in the workforce longer or convince them to return.

Improve immigration processes

Immigration processing times are notoriously lengthy. Even when they have been selected by Quebec, foreign workers can experience delays of up to 30 months before obtaining permanent resident status—five times longer than in other Canadian provinces. In Quebec, applications for permanent residence can take up to three years to process.[13] Such delays hurt the economy and make it more difficult to attract and retain international talent in Quebec and Montréal. This is holding back businesses and stifling economic growth.

In the recent Economic and Fiscal Update, the government announced $85 million to process more permanent and temporary residence applications and reduce processing times in key sectors affected by the pandemic. The Chamber applauds this move. We also support the concept of a trusted employer system.

However, we strongly urge the government to impose results-based criteria. We also ask that it pledge to increase the required budgets if it is unable to process Immigration Canada's backlog of approximately 50,000 applications[14] in the coming year.

These new injections must also be accompanied by substantial improvements in permanent residence administrative processes; we need a sustainable solution that will cut processing delays and attract international talent. Federal and provincial authorities must work together to effectively respond to the urgent needs of businesses and institutions.

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[12] Manufacturiers et exportateurs du Québec, *Pénurie de main-d'œuvre dans le manufacturier : des pertes de 18 milliards de dollars pour l'économie québécoise*, September 28, 2021, [Online], https://meq.ca/2021/09/28/penurie-de-main-doeuvre-dans-le-manufacturier-des-pertes-de-plus-de-18-milliards-de-dollars-pour-leconomie-quebecoise/

[13] *Le Devoir*, "Le ministre fédéral attend le "go" de Québec pour accueillir plus d'immigrants", December 9, 2021, [Online], https://www.ledevoir.com/politique/canada/652938/immigration-le-ministre-federal-attend-le-go-de-quebec-pour-accueillir-plus-d-immigrants

[14] *Radio-Canada*, "Plus de 50 000 travailleurs qualifiés attendent d'être admis au Québec," April 29, 2021, [Online], https://ici.radio-canada.ca/nouvelle/1788584/immigration-inventaire-record-quebec-ottawa-residence

Promote the retention of experienced workers

Keeping experienced workers in the workforce for a longer period will help meet the immediate needs of our businesses. Nearly half (47%) of the businesses surveyed by the Chamber believe this to be an effective strategy for addressing the labour shortage, and they are willing to tailor their work conditions to these employees' specific needs. This will require incentives, which the government can help create through changes to the tax system.

Recommendation #1: Put forward a set of workforce measures that complement those of provincial governments and that provide long-term solutions and short-term results, including:

- ***expedited processing of the approximately 50,000 Quebec applications currently in the permanent residence inventory, along with new mechanisms that will prevent such delays in the future;***
- ***a reduction of the tax burden on experienced workers and strengthened incentives for them to remain in the workforce.***

2. ACCELERATING THE DIGITAL TRANSFORMATION AND GREENING OF BUSINESSES

Our businesses were facing productivity challenges long before COVID-19. Over the years, various government support measures have helped stimulate investment in the robotics and automation sector. While this approach has helped businesses to a certain degree, nearly one third of the companies surveyed by the Chamber report that they still require government support to complete their digital transformation.[15]

Results have been decidedly mixed. In Quebec, only 25% of business processes are automated, compared to 55% in the United States. Our productivity levels sit below the average of the 20 member countries of the Organization for Economic Cooperation and Development (OECD).

In addition, as we have repeatedly pointed out, it is still extremely difficult for many small businesses in emerging sectors to leverage intellectual property and grow their market share through commercialization. The fruits of research often fail to reach the market through technology transfer or commercialization efforts. This translates into a significant loss of earnings for our businesses compared to their foreign competitors, who benefit from better support in commercializing their assets.

An environment more conducive to digital transformation: acting strategically

In this context, the Government of Canada must set the tone and be proactive. It must work to optimize its measures (i.e., avoid any undue burdens on business) and provide adequate resources. Support measures should be better promoted to businesses through Innovation, Science and Economic Development Canada (ISED).

In addition, the government can play a key role by being an early adopter of Canadian innovations (e.g., in environment, health and mobility), and by serving as a testing ground for early-stage product development. In this way, it will truly become a catalyst for innovation while promoting a sustainable economic recovery. ISED should be tasked with this mandate and provided with funding to facilitate networking between large companies and innovative SMEs.

The recommendations of the Chamber remain largely unchanged from those it put forward for the previous federal budget: intensify efforts, adequately fund and promote support measures, and adopt new technologies.

Recommendation #2: Serve as a catalyst for innovative and sustainable practices by providing adequate funding and intensifying the promotion of support measures to:

[15] CCMM survey conducted December 8–21, 2021, 240 respondents.

- ***accelerate businesses' digital shift through financial support for major investments;***
- ***boost the commercialization of innovations by serving as a testing ground or first buyer for Canadian businesses.***

A strategy for tackling the climate crisis

In the wake of the reports issued by the Intergovernmental Panel on Climate Change (IPCC) and annual Conference of the Parties (COP) summits, there is a clear consensus on the need for a strategy to decarbonize the Canadian economy. As we emerge from the pandemic, governments, including Canada's, are pinning hopes on a green recovery to achieve their GHG emission targets, which in Canada's case means a reduction of 40 to 45% below 2005 levels by 2030 and carbon neutrality by 2050.

More and more businesses are recognizing the role they must play, and they are looking for ways to go green and adopt ESG practices. For example, in a recent Chamber survey, the majority of respondents indicated their support for various eco-taxation measures such as carbon pricing (73%).[16]

As they navigate this green shift, businesses—especially those weakened by the pandemic—need guidance and financial support to implement meaningful changes. The Chamber believes that there are lessons to be learned from the digital transformation and that targeted support programs should be offered to businesses in every sector. Local organizations, including chambers of commerce, can serve as platforms to help companies make this shift, providing them with adequate support to evaluate their plans and monitor their effectiveness.

The challenge is enormous and the resources required to meet it will need to be up to the task. Costs could also be higher than expected. According to RBC Economics, the investment required to achieve carbon neutrality by 2050 in Canada is estimated at over $2 trillion, or $60 billion per year.[17] Based on population, the annual bill for Quebec would be over $15 billion. The International Institute for Sustainable Development (IISD) has come to a similar conclusion, estimating that in Quebec, the average temperature increase over the next 50 years could result in annual costs of more than $33 billion.[18]

As noted in *Canadian Energy Outlook 2021 – Horizon 2060*, despite recent efforts by the federal government and a number of provincial governments, current measures may be largely insufficient to meet the 2030 and 2050 targets.[19,20]

The next budget must commit resources accordingly and include tax policies that prompt businesses to take immediate action. In this respect, Canada has a long way to go compared to other OECD countries. According to a study by the Chair in Taxation and Public Finance of the Université de Sherbrooke,[21] Canada ranks 36th out of 38 governments, with only the United States and Colombia taxing pollution less in proportion to the size of their economies. The study also shows the need for a revision of certain duties and taxes that have remained unchanged for several years.

[16] CCMM survey conducted December 8–21, 2021, 240 respondents.

[17] RBC Economics, *The $2 Trillion Transition: Canada's Road to Net Zero*, October 20, 2021, [Online], https://thoughtleadership.rbc.com/the-2-trillion-transition/?_ga=2.142947187.719712864.1642863161-1231848329.1639150218

[18] Ouranos, *Le coût de l'inaction face aux changements climatiques*, December 2017, [Online], https://ceriu.qc.ca/system/files/2018-02/A2.5_L.Dasilva_0.pdf

[19] Simon Langlois-Bertrand, Louis Beaumier and Normand Mousseau (Institut de l'énergie Trottier de Polytechnique Montréal, in collaboration with Olivier Bahn of e3c Hub – HEC Montréal and contributions from ESMIA Consultants responsible for the e3c modelling), *Canadian Energy Outlook 2021 – Horizon 2060*, [Online], http://iet.polymtl.ca/en/energy-outlook/

[20] Normand Mousseau, Louis Beaumier and Simon Langlois-Bertrand, *Le Soleil*, "Le Canada veut désormais atteindre la carboneutralité et cela change tout," opinion letter, October 24, 2021, [Online], https://www.lesoleil.com/2021/10/24/le-canada-veut-desormais-atteindre-la-carboneutralite-et-cela-change-tout-cfd691d81201d6b083f09cd135f68cd6

[21] Alexendra Caron-Godin, Michaël Robert-Angers and Lyne Latulippe, *Inventaire des mesures écofiscales au Québec - édition 2021, Cahier de recherche 2021-13*, Chaire de recherche en fiscalité et en finances publiques, [Online], https://cffp.recherche.usherbrooke.ca/wp-content/uploads/2021/10/Inventaire-2021_13_102021_F-1.pdf

The public procurement process also has a major role to play.[22] A study conducted by the Chamber, in collaboration with Propulsion Québec, underlines the importance of applying the government's Policy on Green Procurement and its sustainable development criteria.[23]

Recommendation 3: Deploy a package of measures to achieve GHG reduction targets by 2030 and carbon neutrality by 2050. From the outset, these measures should include:

- ***creating support programs for businesses in all sectors to help them go green and to identify initiatives that will ensure rapid gains;***
- ***making initial investments and becoming a major buyer of Canadian technologies, thereby creating the right conditions for the government to develop and adopt clean technologies;***
- ***adopting an ambitious policy for the electrification of transportation and the development of the battery industry, aligned with the Quebec government's strategy;***
- ***adopting sustainable finance practices by encouraging Canadians to invest in ESG-friendly securities through the implementation of minimum return targets.***

3. CREATING AN ENVIRONMENT CONDUCIVE TO INCREASED INTERPROVINCIAL AND INTERNATIONAL TRADE

The pandemic has led to a reduction in international trade in many sectors. Global supply chains are slowly recovering but have yet to return to their prepandemic fluidity. The pandemic also forced a number of countries to close their doors for public health reasons, fuelling a desire to better exploit domestic markets, stimulate local economies and boost autonomy.

With the protectionism baked into its *Build Back Better America Act*, the United States (the main destination for Canadian exports) offers a prime example of this phenomenon. Trade tensions between Canada and China also remain high.

Since Canada's economic growth is dependent on its ability to tap into foreign and domestic markets alike, the Chamber believes we must intensify development and diversification efforts both at home and internationally.

The stakes are high. Domestic trade accounted for about 23.5% of our country's GDP in 2018,[24] while international exports averaged 39.3% of GDP. From 2010 to 2018, the value of interprovincial trade increased from $334.2 billion to $404.1 billion, a 21% increase. Exports to foreign markets also rose over the same period, from $458.4 billion to $677.5 billion, a sustained increase of 38%.[25]

In other words, Canadian companies are increasing their trade activities abroad at a faster pace, indicating a greater ease in penetrating these markets compared with domestic markets. The Chamber believes that the Canadian government must show leadership in bringing the provinces together to reduce barriers to internal trade, while respecting provincial jurisdictions.

Exploit the full potential of the Canadian market by reducing trade barriers

We need to place greater emphasis on local trade. The pandemic has highlighted the importance of increasing national self-sufficiency in a number of areas, including the supply of medical equipment. The

[22] World Economic Forum, *Green Public Requirement: Catalysing the Net Zero Economy*, January 12, 2022, [Online], https://www.weforum.org/whitepapers/green-public-procurement-catalysing-the-net-zero-economy#:~:text=Pursuing net-zero goals in public procurement will boost the green economy's total GDP of $70 trillion

[23] CCCM and Propulsion Québec, *Making public procurement in Québec a strategic tool for strengthening innovation and developing the economy*, September 2020, [Online], https://www.ccmm.ca/en/publications/study/making-public-procurement-in-quebec-a-strategic-tool-for-strengthening-innovation-and-developing-the-economy-/

[24] Statistics Canada, *Table 12-10-01-01 Interprovincial and international trade flows, basic prices, detail level (x 1,000)*, [Online], https://www150.statcan.gc.ca/t1/tbl1/en/tv.action?pid=1210010101

[25] *Ibid.*

Canadian electric vehicle industry would profit from a reduction in trade barriers. Our clean technologies industry would also stand to benefit. These are just a few sectors in which removing interprovincial trade barriers would help pave the way towards greater economic autonomy.

The 2017 Canadian Free Trade Agreement (CFTA) contained several notable improvements over its predecessor (Agreement on Internal Trade). However, much more could be done to reduce trade barriers; their elimination would lead to significant gains. The costs of internal trade barriers add nearly 7% to the price of goods. Free trade within Canada could lead to an increase in GDP of 4%, more than any international trade agreement signed in recent memory.[26] According to the IMF, Canada could increase its productivity by 3.8%, adding up to $90 billion to the economy,[27] thanks to economies of scale and increased competitiveness in all markets.

The Chamber therefore recommends continued efforts to reduce interprovincial trade barriers. Free trade within Canada has the potential to increase GDP more than any recently signed international trade agreement. Drawing on lessons from the COVID-19 pandemic, Canada should also continue to develop its own supply chains for strategic commodities, such as medical equipment and energy resources, by establishing uniform regulatory and tax conditions across the country.

Recommendation #4: In concert with provincial governments, continue to eliminate barriers to interprovincial trade, and deploy a pan-Canadian strategy to strengthen internal trade and promote greater autonomy in certain strategic supply chains.

Take greater advantage of international trade agreements

Canada has entered into numerous international free trade agreements, including the Canada-U.S.-Mexico Agreement (CUSMA), the Comprehensive Economic and Trade Agreement (CETA) and the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP). Together, these agreements account for over half the global GDP, allowing Canada to benefit from favourable trade conditions.[28] The Chamber applauds these achievements and supports the Government of Canada in its efforts to conclude new trade agreements. The negotiations for a free trade agreement with ASEAN are very much in line with this.

Export potential is enormous but remains too little exploited by our business sectors. In *Canada's State of Trade 2020,*[29] the Government of Canada highlighted the following points:

- At the moment, it appears that not all Canadian exporters and importers are taking full advantage of CETA. In terms of market diversification, the growth of exports to Germany, France and Italy is a good sign, but there has been a contraction in exports to the UK.
- As Japan is currently the only member of CPTPP whose trade performance with Canada can be analyzed, a clear picture cannot be drawn.
- CUSMA has enabled Canada to maintain gains in GDP and employment.

This data clearly indicates that as the economic recovery gains momentum, it will become even more critical to invest in our businesses' competitiveness, by providing them with financing and support to grow and to seize opportunities in export markets. As international activities increase and business travel resumes, the Chamber invites the government to set aside funds for an ambitious strategy to support the internationalization of our businesses. They must be able to participate in activities such as international missions and trade fairs to properly position themselves in foreign markets.

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[26] CCMM, *Fractured Canadian market slows our economic recovery,* August 12, 2020, [Online], https://www.ccmm.ca/en/medias/fiscalite-economie/fractured-canadian-market-slows-our-economic-recovery--say-business-leaders/

[27] International Monetary Fund, *Internal Trade in Canada: Case for Liberalization*, July 2019, [Online], https://www.imf.org/en/Publications/WP/Issues/2019/07/22/Internal-Trade-in-Canada-Case-for-Liberalization-47100

[28] Government of Canada, *Budget 2017, Chapter 1 – Skills, Innovation and Middle Class Jobs*, [Online], https://www.budget.gc.ca/2017/docs/plan/chap-01-en.html

[29] Global Affairs Canada, *Canada's State of Trade 2020*, July 22, 2020, [Online], https://www.international.gc.ca/gac-amc/assets/pdfs/publications/State-of-Trade-2020_eng.pdf

Canada already offers financial support of up to $50,000 to help SMEs enter new markets.[30] As the economy recovers, it is expected that many businesses will want to increase their presence abroad.

The Chamber therefore recommends that the Government of Canada strengthen its support for the internationalization of SMEs by increasing aid ceilings, particularly for innovative companies, and by providing additional resources to boost the number of exporting SMEs. Commercializing intellectual property, implementing an open borders strategy and increasing funding for the development of foreign markets will be key to the success of our businesses on the international stage during the recovery.

Recommendation #5: Increase support to Canadian companies that want to go global with an ambitious strategy that will help them take advantage of the favourable economic recovery environment.

4. SUPPORTING MONTRÉAL'S KEY SECTORS AND INVESTING IN THE MODERNIZATION OF ITS STRATEGIC INFRASTRUCTURE

Most areas of economic activity regained momentum in 2021. However, some sectors remain hard hit, including tourism, air transport and certain sectors of the cultural and creative industries. We will come back to this later.

Overall, despite the uncertainty caused by new variants, cautious optimism is warranted. Maintaining lasting momentum, however, will require increased support for the sectors that drive Montréal's economy.

Continue to support Montréal's clusters and flagship sectors

We look forward to assurances in the upcoming budget that the government will continue its support for Canada's leading economic sectors, particularly those that are key to the Montréal economy. A successful recovery requires effective sectoral support strategies. This is one of the main findings drawn from the action plans developed in conjunction with Relaunch MTL. Using this approach, the government can contribute to sustainable growth, increase the attractiveness of Canada's industrial ecosystems and even help build autonomy in strategic areas—a need exposed by the pandemic.

Such an approach should include Scale AI (part of the supercluster initiative that is up for renewal in 2023) as well as Montréal's industrial clusters, many of which are deploying innovative projects to help meet Canada's goals for the environment (electric transportation and battery industry, green aircraft, clean technologies), the country's autonomy (health and medical technologies), and our global positioning (artificial intelligence, video games, visual effects and animation).

Recommendation #6: adequately fund and maintain a comprehensive sectoral support strategy to fuel sustainable growth, attract foreign direct investment and enhance Canada's global competitiveness.

Contribute to the revival of Canada's downtowns

For two years now, the Chamber has been calling for the federal government to treat our cities' downtowns as an economic sector in its own right, one that requires a unique strategy and tailored measures to successfully emerge from the pandemic. We repeat: our downtowns are on the verge of decline, which will lead to higher bankruptcy risks for local businesses and decreased property values.

The various areas of activity that drive our downtowns, including work, education, arts and culture, retail and tourism, are still feeling the effects of the pandemic. As CBRE points out, reduced demand has hit downtown Montréal particularly hard. In September, the vacancy rate for downtown office space stood at

[30] Government of Canada, *Funding and support programs for doing international business*, [Online], https://www.tradecommissioner.gc.ca/funding_support_programs-programmes_de_financement_de_soutien.aspx?lang=eng

13.2%, nearly double the rate seen in the first quarter of 2020, itself the lowest in recent years.[31] The occupancy rate for downtown hotels was 40%, well below normal.

The reanimation of downtown is slowly under way, although hybrid work schedules continue to present many unknowns, requiring significant adjustments to work environments. The last two years have also seen more households migrating to the suburbs. The emergence of the Omicron variant at the end of 2020 prompted a resurgence in telecommuting, halting the return-to-office trend.

We must ensure that this situation does not morph into a structural crisis. What's good for Montréal is also good for other Canadian cities.[32] We reiterate our insistence on a national downtown strategy, with the budget for Quebec managed by Canada Economic Development.

Recommendation #7: Provide funding to Canada Economic Development to launch a national strategy for revitalizing Canadian downtowns.

Invest in strategic Montréal infrastructure

A sustainable recovery will necessitate the immediate launch of growth-generating projects that will have an impact for decades to come. At the city level, four major projects require immediate federal support.

Aéroports de Montréal (ADM) infrastructure development

The Government of Canada has pledged financial support for the Réseau express métropolitain (REM) station at the Montréal-Trudeau International Airport. The project is currently under way, which is very positive. That said, the future of the revitalized Montréal-Trudeau hub requires major investments to ensure that the airport will be in a strong position once international air traffic returns to prepandemic levels.

ADM will not be able raise sufficient funds for these needed investments. Not only has ADM faced a significant drop in revenue due to the sharp decline in flights since the beginning of 2020, but it has also injected over $600 million into the REM. This has put a stop to other projects that are needed to strengthen Montréal-Trudeau's enviable position and secure its ability to respond to increasing demand as the pandemic recedes.

In this context, the Chamber is asking that the government reinvest in funding programs for Canadian airports. It urges the Government of Canada to provide additional, temporary funding to bolster ADM operations, at least until the pandemic is over.

Expansion of the Palais des congrès de Montréal

For the last two decades, Quebec's largest city has played host to some of the world's biggest conventions, attracting hundreds of thousands of exceptional talents and leading influencers. It is not only business tourism that has reaped the benefits—all sectors of economic activity have profited from this long-running success story.

However, Montréal's position as a host city has been declining for a number of years: its Palais is now too small to accommodate the largest conventions, even as investments have been channelled elsewhere to expand city infrastructure.

An expansion project of this scale requires multi-party funding. Ville de Montréal has indicated its support, and the Quebec government is funding a feasibility study as part of its Programme québécois des infrastructures 2021-2031. The Canadian government should help the Palais expansion move to the next step by pledging support for the project as soon as it is approved by the Quebec government.

Revitalization of the former Royal Victoria Hospital site

[31] Montréal in statistics, *Indicateurs clés de l'économie*, January 14, 2022, [On-line], http://ville.montreal.qc.ca/pls/portal/docs/PAGE/MTL_STATS_FR/MEDIA/DOCUMENTS/INDICATEURS%20S%C9LECTIONN%C9S_14%20JANVIER%202022.PDF

[32] Association for Canadian Studies, *COVID-19 and downtowns in Canada*, September 2020, [Online], https://acs-metropolis.ca/wp-content/uploads/2020/09/Are-Downtowns-Hot-Spots-1.pdf

During consultations conducted by the Office de consultation publique de Montréal, the Chamber recommended that these buildings, one of which is a national historic site of Canada, be reserved primarily for institutional purposes. With this in mind, we support the New Vic project, spearheaded by McGill University, which aims to add new state-of-the-art infrastructure for research and higher education. This initiative will strengthen Montréal's competitiveness in the knowledge economy and will significantly enhance our city's international reputation.

This type of project also requires multi-party funding. The Chamber has urged cooperation among provincial, federal and municipal governments to foster the successful conversion of the site. The CCMM therefore asks the Government of Canada to pledge funding for the revitalization of this heritage site.

Development and maintenance of Montréal's public transportation system

In previous years, and again more recently,[33] the Government of Canada has offered significant funding to support and develop public transit in Canada. This is a major step in the right direction and the Chamber welcomes this major commitment. There is a need for continuous collaboration with the other levels of government to help them implement their development plans for Greater Montréal's transit systems, including the repair and extension of the Montréal metro.

We are also calling on the government to quickly disburse the $750 million it has just announced, so that transit authorities can keep their heads above water until ridership recovers to satisfactory levels. Once the rescue plan has run its course and ridership returns, we believe that the governments of Canada and Quebec must work together to ensure that the system is developed using sustainable funding sources.

Recommendation #8: Invest in strategic city infrastructure:

- ***address revenue shortfalls at Canadian airports caused by declining traffic;***
- ***make financial contributions and disburse funds rapidly to support and expand public transportation in Montréal, expand the Palais des congrès de Montréal and revitalize the former Royal Victoria Hospital site.***

5. MAINTAINING FISCAL DISCIPLINE TO LIMIT THE BUDGET'S IMPACT ON INFLATIONARY PRESSURES

In its December 14 budget update, the Government of Canada outlined a scenario for a quicker-than-expected return to balanced budgets. The Chamber welcomed this willingness to redress the country's public finances following the massive injections of funds required by the COVID-19 pandemic. We also stressed the relevance of maintaining temporary measures to help sectors most affected by the pandemic.

The robustness of the economy—both in Montréal and throughout Quebec—clearly demonstrates the positive impact of our governments' measures. However, our economic future risks being jeopardized by excessive tax burdens down the road. There will be other crises, and we must give ourselves room to manoeuvre in order to successfully face them.

We are living through a period framed by major structural challenges: an aging population and increasing cost pressures on our health care system, lagging productivity, and the need to transform our economy to address the climate crisis.

These challenges will be extremely difficult to meet and will require sustained commitment from all economic stakeholders over an extended period of time. For example, according to RBC Economics, the

[33] Department of Finance Canada. *Federal government announces an investment in public transit systems across Canada*, [Online], https://www.canada.ca/en/department-finance/news/2022/02/federal-government-announces-an-investment-in-public-transit-systems-across-canada.html

investment required to achieve carbon neutrality is estimated to be more than $2 trillion.[34,35] This would require governments, businesses and communities to spend at least $60 billion per year to lower greenhouse gas (GHG) emissions by 75% from current levels and achieve carbon neutrality by 2050.

The challenge for the government is to account for this spending while staying the course to a balanced budget over the 2026-2027 horizon, as outlined in the December update. The government must also pledge to not increase the tax burden on businesses and individuals.

Canada has successfully weathered the current crisis thanks to its healthy public finances. A prudent fiscal approach is also a winning strategy for the longer term: it will help us meet our enormous challenges while ensuring a competitive tax environment that will attract investment and talent.[36] The debt-to-GDP ratio was 33.9% in 2019. It currently stands at over 47%.[37] Looking forward, it is reasonable to expect a return to a lower ratio once the pandemic's most significant impacts on government spending have abated.

As we noted in the introduction, a cautious approach is needed in 2022 to avoid increasing inflationary pressures. Given the possibility of new COVID-19 variants, highly uneven global vaccination rates, fragile supply chains, more persistent inflation than expected and an anticipated rise in interest rates in 2022, there is still far too much uncertainty. The government should therefore maintain targeted support for sectors that remain hard hit by the pandemic while bolstering the efforts of those that are driving growth.

Recommendation #9: Deploy a rigorous budget plan characterized by:

- ***a steadfast trajectory towards a balanced budget;***
- ***a pledge to not increase the tax burden on businesses and individuals;***
- ***a plan to reduce the debt-to-GDP ratio to below 40% as soon as possible.***

Conclusion

Canada experienced a solid recovery in 2021. Business confidence has returned to high levels despite the year-end slowdown caused by public health measures deployed against the Omicron variant.

The economic outlook for 2022 is positive, although there will be more persistent inflationary pressures than expected, due to ongoing instabilities in global supply chains and wage increases resulting from labour shortages. In this context, higher interest rates may also dampen business investment and household spending.

The Canadian government's 2022-2023 budget must therefore create the conditions for a sustainable recovery while demonstrating rigorous discipline, especially since major investments will be required over the next few years—particularly in health, the environment, and in strategic sectors of the Canadian economy.

A less expansionary fiscal policy is needed in the short term, including the phasing out of pandemic-related aid measures. At the same time, the budget must include strong measures aimed at boosting immigration and courting experienced workers, to respond to urgent labour needs. Opportunities must be seized by placing an even stronger focus on the commercialization of innovations and the digital transformation of businesses, to increase productivity and reduce workforce pressures.

[34] RBC Economics, *The $2 Trillion Transition: Canada's Road to Net Zero*, October 20, 2021, [Online], https://thoughtleadership.rbc.com/the-2-trillion-transition/?_ga=2.142947187.719712864.1642863161-1231848329.1639150218

[35] Miville Tremblay, *La Presse*, "Il est minuit moins une, que fait votre argent?" Opinion piece, November 1, 2021, [Online], https://www.lapresse.ca/debats/opinions/2021-11-01/cop26/il-est-minuit-moins-une-que-fait-votre-argent.php

[36] Miville Tremblay, *La Presse*, "Les aveugles et l'éléphant", opinion piece, October 18, 2021, [Online], https://www.lapresse.ca/debats/opinions/2021-10-18/les-aveugles-et-l-elephant.php

[37] Department of Finance Canada. 2021. *Annual Financial Report of the Government of Canada - Fiscal Year 2020-2021* [Online], https://www.canada.ca/en/department-finance/services/publications/annual-financial-report/2021/report.html

To ensure a sustainable recovery, the next budget must also prioritize targeted investments in major projects, most notably in our cities' downtowns and the economy's flagship sectors, including clean technologies, artificial intelligence and aerospace. Another key to success will be the creation of an environment conducive to the further internationalization of our businesses, in addition to the unlocking of the Canadian market's considerable potential through the reduction of interprovincial trade barriers.

Summary of recommendations

Recommendation #1: Put forward a set of workforce measures that complement those of provincial governments and that provide long-term solutions and short-term results, including:

- ***expedited processing of the approximately 50,000 Quebec applications currently in the permanent residence inventory, along with new mechanisms that will prevent such delays in the future;***
- ***a reduction of the tax burden on experienced workers and strengthened incentives for them to remain in the workforce.***

Recommendation #2: Serve as a catalyst for innovative and sustainable practices by providing adequate funding and intensifying the promotion of support measures to:

- ***accelerate businesses' digital shift through financial support for major investments;***
- ***boost the commercialization of innovations by serving as a testing ground or first buyer for Canadian businesses.***

Recommendation 3: Deploy a package of measures to achieve GHG reduction targets by 2030 and carbon neutrality by 2050. From the outset, these measures should include:

- ***creating support programs for businesses in all sectors to help them go green and to identify initiatives that will ensure rapid gains;***
- ***making initial investments and becoming a major buyer of Canadian technologies, thereby creating the right conditions for the government to develop and adopt clean technologies;***
- ***adopting an ambitious policy for the electrification of transportation and the development of the battery industry, aligned with the Quebec government's strategy;***
- ***adopting sustainable finance practices by encouraging Canadians to invest in ESG-friendly securities through the implementation of minimum return targets.***

Recommendation #4: In concert with provincial governments, continue to eliminate barriers to interprovincial trade, and deploy a pan-Canadian strategy to strengthen internal trade and promote greater autonomy in certain strategic supply chains.

Recommendation #5: Increase support to Canadian companies that want to go global with an ambitious strategy that will help them take advantage of the favourable economic recovery environment.

Recommendation #6: adequately fund and maintain a comprehensive sectoral support strategy to fuel sustainable growth, attract foreign direct investment and enhance Canada's global competitiveness.

Recommendation #7: Provide funding to Canada Economic Development to launch a national strategy for revitalizing Canadian downtowns.

Recommendation #8: Invest in strategic city infrastructure:

- ***address revenue shortfalls at Canadian airports caused by declining traffic;***
- ***make financial contributions and disburse funds rapidly to support and expand public transportation in Montréal, expand the Palais des congrès de Montréal and revitalize the former Royal Victoria Hospital site.***

Recommendation #9: Deploy a rigorous budget plan characterized by:

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