The Chamber of Commerce of Metropolitan Montreal

Maintain Growth to Boost Competitiveness

Recommendations presented to the House of Commons Standing Committee on Finance

August 3, 2018

Context

The Chamber of Commerce of Metropolitan Montreal (the Chamber) has over 7,000 members. Its mission is to act as the voice of Montreal's business community and to promote for the prosperity of the city and its businesses. The Chamber is involved in key areas of economic development, advocating a philosophy of action based on engagement, credibility, proactivity, collaboration and innovation. It is the largest private organization in Quebec devoted to economic development.

Introduction

The global economy has experienced vigorous growth, yet it comes with an increasingly high level of uncertainty. It is forecasted to grow by 3.8% in 2018[1], the highest since the recession ten years ago. The American economy is robust, with a forecasted growth of 3% this year[2]. However, the escalation of protectionist measures between the United States and its trading partners, the uncertain outcome of Brexit and the increase in geopolitical tensions are all issues that could cripple the world economy.

Though the outlook of the Canadian economy remains positive, following a significant increase of the country's GDP in 2017, it has taken a negative turn in 2018. Analysts are predicting the GDP to grow by 2% annually between 2018 and 2020[3]. The Canadian labour market remains robust, and unemployment stands at a 40-year low. Exports and investments are forecasted to contribute more to growth than they have in recent years[4], even when considering the customs duties imposed by the United States, and Canada's retaliation. This positive trend has also been observed in Montreal, where the economy is growing at a rate of 2.1%[5], and where unemployment is down to 6%. In the last year, Montreal attracted more than $2 billion in direct foreign investment, mainly in the information technology and artificial intelligence (AI) sectors.

However, the emergence of new tariffs and escalating tensions with the United States, the loss in Canada's tax competitiveness following American tax reform, and the potential end of NAFTA could gravely impact Canada's growth outlook and its ability to protect jobs in many sectors of its economy. These growing concerns will make it harder for Canada to calibrate its monetary policy in the next 18 months.

The possibility of a global recession and the deterioration of trade relationships with the United States both account for the growing concerns around Canada's public finances. The succession of high-deficit budgets and the absence of a plan to return to a balanced budget are weakening the Canadian government's ability to adapt to an economic shock potentially caused by the risk factors mentioned above.

Given the situation, the Chamber recommends five priority actions:

1. Improve the competiveness of the Canadian tax system by considering the American reform
2. Continue investing in innovation
3. Step up efforts to boost international and interprovincial trade by increasing active support to businesses and organizations on the ground
4. Accelerate infrastructure investments by focusing on faster disbursements
5. Develop an explicit and rigorous plan to return to a balanced budget

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[1] Bank of Canada, *Monetary Policy Report*, July 2018.
[2] Idem.
[3] Idem.
[4] Ibid.
[5] The Conference Board of Canada, "Moderate Economic Growth On Tap For Quebec Cities in 2018", Ottawa, March 13, 2018.

1. ENHANCE THE COMPETITIVENESS OF CANADA'S TAX ENVIRONMENT

The United States government has slashed federal taxes for companies, and has significantly cut income tax for individuals.

The average federal corporate tax rate dropped from 35% to 21%. Taking into account State taxes, the average combined corporate tax rate for American companies is 26%[6], similar to the corporate tax rate for Quebec companies (26.7%). The American tax reform has therefore considerably reduced our competitive advantage.

Furthermore, Canada's individual tax rate is among the highest in North America. With a tax pressure rate of 11.6%, Canada is ninth on the list of countries where individual income tax is highest in proportion to GDP. The country's rate is higher than the OECD average (8.4%) and that of the United States (10.5%).

The business community is particularly concerned about the lack of competiveness in Canada, when compared to the United States, in terms of overall taxes and the country's ability to maintain private investments and attract international talent.

Recommendation No. 1: Lower the tax burden for both companies and individuals

For over a year, the business community of the metropolitan region of Montreal has been calling on the government to charge taxes, particularly sales tax, on all online transactions. Currently, many international companies are selling products and digital content without having to systematically pay taxes. Not only does this situation create unacceptable inequities, it also robs the Canadian government of major tax revenue. Fiscal inequity has a direct impact on the competitiveness of our companies, which are already pressured by new business models developed by the tech giants.

In the last budget, the Government of Canada showed that it was slightly open to taxing the Internet giants. In the next budget, it must take action on the matter.

Recommendation No.2: Systematically apply the Canadian tax system to online transactions, especially sales tax on products and services purchased online.

2. CONTINUE INVESTING IN INNOVATION

If we wish to develop our niche of excellence in the AI sector, we must have access to vast amounts of data. In order to promote research and development, public institutions must adopt open data policies. However, the government must regulate these policies so that personal data is protected and that people have the right to be digitally forgotten[7].

Furthermore, the government must enhance the security of online transactions to protect consumers. According to the World Economic Forum's report[8] on global risk, cyberattacks are the most concerning risk for business leaders in advanced economies.

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[6] Tax Foundation, "US corporate tax more competitive", February 12, 2018.
[Online: https://taxfoundation.org/us-corporate-income-tax-more-competitive/.]
[7] Right to be digitally forgotten, *Definition and principle of the right to be forgotten on the Internet*, 2017.
[8] World Economic Forum, "Cyber risk is a growing challenge. So how can we prepare?", January 2018.
[Online: https://www.weforum.org/agenda/2018/01/our-exposure-to-cyberattacks-is-growing-we-need-to-become-cyber-risk-ready.]

Recommendation No. 3: Improve access to data in order to stimulate business innovation and enhance the security of online transactions

Data and information sharing is booming around the world. The expansion of AI, the Internet of Things, cloud technology, 3D design and big data management considerably increase data flow. Our digital infrastructure must be modernized to meet the demands set by the ever-increasing capacity of the Internet. We must therefore deploy 5G technology to enable Canada to maintain its competitive edge.

Recommendation No. 4: Continue investing in 5G technology across Canada

3. STEP UP EFFORTS TO BOOST INTERNATIONAL AND INTERPROVINCIAL TRADE

The trade tensions with the United States, the implementation of the Comprehensive and Economic Trade Agreement (CETA) between Canada and the European Union, and the signing of the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) are exceptional opportunities to encourage Canadian companies to diversify their markets.

The Chamber is requesting the government to accelerate initiatives that facilitate access to foreign markets.

Recommendation No. 5: Increase the funding available:

- *To support efforts made by Canadian companies, particularly SMEs, in foreign markets*
- *To increase the number of trade delegates for target countries*

Recommendation No. 6: Maintain financial support for sectors affected by American tariffs, and be sure to be ready to react to any additional American tariffs

During the recent Council of the Federation, the premiers advocated for more interprovincial trade. Both the Canadian economy and business supply chains would benefit from greater fluidity in interprovincial trade.

Recommendation No. 7: Contribute to the efforts made by the provinces by removing interprovincial trade barriers

4. ACCELERATE STRATEGIC INFRASTRUCTURE INVESTMENTS

Modernizing Montreal's infrastructure is a massive project that will go on for least a decade. In time, investments earmarked for this modernization will allow Montreal to increase the productivity and competitiveness of its economy. The Chamber is therefore asking the Government of Canada to continue investing in public transit infrastructure. The government must make a clear commitment to extending the blue line of the Montreal metro.

Given the situation, the Chamber is asking the government to speed up the implementation of the Canada Infrastructure Bank (CIB). The business community is still awaiting clarifications on the funding application process for projects not commissioned by the CIB, and on the nature of the selection criteria.

Recommendation No.8: Quickly release the funds earmarked for priority infrastructure projects, as well as clarify the criteria and the processes of the Canada Infrastructure Bank

Business activity in the Port of Montreal has grown spectacularly in recent years. With the implementation of CETA and the upcoming ratification of the CPTPP, the Montreal Port Authority is forecasting an increase of over 60%[9] more containers to handle.

The Port must therefore develop its facilities and strengthen its operational capability, particularly since its competitors[10] on the eastern seaboard of the United States have invested more than $9 billion in their facilities in recent years.

Furthermore, traffic at the Montréal-Trudeau Airport grew 8% in the last three years, and Aéroports de Montréal wishes to invest $2.5 billion in its infrastructure in order to adapt to this sharp increase. However, the airport does not have enough leverage with its funding to implement all the elements necessary to improve and expand its facilities. These funding issues are similar to the ones faced by all Canadian airports.

Recommendation No. 9: Provide investments to support the expansion of the Port of Montreal

Recommendation No. 10: Increase the flexibility for funding Canadian airports by allowing capital to flow in from private-sector partners

5. SET TARGETS TO RETURN TO A BALANCED BUDGET

The business community is increasingly concerned by the lack of a credible plan to return to a balanced budget. Sound and stable public finances during periods of economic growth provide a solid foundation during recessions and economic shocks.

The Chamber is vigorously reiterating its recommendation to take advantage of the positive economic situation to develop a rigorous plan to return to a balanced budget.

Recommendation No.11: Develop a plan to return to a balanced budget, and set annual intermediate targets

CONCLUSION

In order to increase Canada's competitiveness and maintain the growth rate of its economy, the Government of Canada must act quickly by continuing to invest in innovation, by diversifying access to preferential markets, by expediting disbursements for infrastructure projects, by adapting Canadian tax policy to the American tax reform and the digital economy, and finally, by returning to a balanced budget.

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[10] Ports of New York-New Jersey, Savannah and Philadelphia.