



January 26, 2011

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

Re: Pre-budget recommendations

Dear Mr. Minister:

On behalf of the Board of Trade of Metropolitan Montreal, I would like to submit our recommendations for the federal government's next budget. I would also like to thank you for our meeting of December 3rd, during which we discussed the government's priorities for sound financial management and a prosperous economy.

First, we are pleased to note that not only was Canada less hard hit by the recession than the other G7 nations, it also enjoyed a stronger recovery than most of them. Our solid banking system, along with a resurgence in domestic demand and the positive effects of the stimulus measures, helped our economy return to its pre-recession output and employment levels.

However, experts are projecting weak GDP growth for a few quarters yet. The strong Canadian dollar, weak U.S. economy and aging of the population could hinder our economic growth in the years ahead.

The first thing we would like to see is the federal government honouring the commitment it made last year to return to a balanced budget and to do so without raising taxes. Next, the Board of Trade would like to see the government maintain and even beef up measures to boost the productivity of our businesses and support them on the international markets. Lastly, we consider it important to continue making infrastructure investments that are strategic for metropolitan Montréal's economic development.

As such, the Board of Trade's recommendations revolve around four major orientations:

- 1. Stay the course to return to a balanced budget according to plan without raising taxes;**
- 2. Beef up measures to enhance business productivity;**
- 3. Keep up efforts to support and help businesses on the international markets;**
- 4. Fund certain strategic public infrastructure projects.**

1st orientation: Stay the course to return to a balanced budget according to plan without raising taxes

Returning to a balanced budget on schedule is vital to the country's prosperity and would send positive signals to investors, and help maintain market confidence as well as the country's credit rating. The government should also capitalize on the recovery that is already well under way to balance its budget while implementing measures to help our economy remain competitive.

The federal government is already planning to balance its budget by 2015 through spending cuts rather than tax hikes. While we encourage the government to continue on this path, we would also like it to state where the cuts will be made to achieve this goal.

In this regard, the Board of Trade believes the government will have to, among other things:

- put an end to the stimulus measures in Canada's Economic Action Plan, according to the new schedule. Now that the economy has been growing for more than a year, the stimulus measures created to counter the recession are no longer necessary;
- maintain transfer payments to the provinces since they will be faced with, among other things, sharply escalating healthcare costs in the coming years;
- continue reviewing and streamlining its expenses. All the government's expenses must be systematically reviewed to weed out those that are no longer necessary. To this end, the government should improve the productivity of its services and identify potential savings within its programs;
- maintain its commitment to cut business taxes by 15% for 2012. Reducing the corporate tax burden will help make businesses more competitive at a time when the global economy is still fragile and businesses are just starting to recover. Moreover, tax cuts would attract investments and create jobs, especially in the manufacturing sector.

2nd orientation: Beef up measures to enhance business productivity

An aging population, a strong Canadian dollar (in relation to the greenback), and fierce international competition have made productivity improvement indispensable to sustainable economic growth and fiscal health. In this respect, the Board of Trade is asking the federal government to beef up measures to enhance business productivity.

The government must encourage research and innovation. The Board of Trade believes the government should continue investing in research and innovation, particularly projects that involve international cooperation, increase the visibility of our innovations and facilitate their commercialization.

The government should focus on the country's promising sectors such as aerospace, life sciences and information and communication technologies. It is important to maintain or beef up support for these sectors, particularly as regards research and innovation tax credits. In our view, the government should also support technology demonstration projects in the aerospace industry so that the latter can remain a global leader.

3rd orientation: Keep up efforts to support and help businesses on the international markets

Canada is an open economy whose exports account for more than 28% of its GDP. Given that roughly 75% of our shipments are bound for the U.S., that our dollar will continue to hover at parity with the greenback in the foreseeable future, and that the growth outlook south of the border is modest, Canada's international trade balance and GDP growth could be adversely affected. Canadian businesses must therefore be encouraged to diversify their markets. The Board of Trade is therefore asking the federal government to:

- increase initiatives to support SMEs interested in penetrating or developing new markets, namely, through Export Development Canada (EDC), especially if they are targeting emerging markets, which are promising but also present higher risks;
- make it easier for SMEs looking to penetrate or develop new markets to secure financing;
- pursue its trade policy and continue to forge more free trade agreements that will facilitate trade between Canada and the rest of the world and make our businesses more competitive.

4th orientation: Fund certain strategic public infrastructure projects

Public infrastructure investments are strategically important for the country's economic performance. Responding to a real need for renewal and modernization, they act as an economic stimulus and help improve productivity and quality of life. In our view, the following two projects are of utmost importance for metropolitan Montréal:

- The first priority should be construction of a rail shuttle between Montréal-Trudeau Airport and downtown. Everything is in place for this project: the studies have been completed, the route has been finalized and the Quebec government has pledged to finance its share. Given the project's strategic importance for Montréal and its international stature, we believe the federal government should provide the remaining \$200 million required to bring this project to fruition. It bears mentioning that the government has funded similar projects in Vancouver and elsewhere in the country.
- Second, the Board of Trade places tremendous importance on the project to enhance the Old Port of Montréal. Considering that the Old Port is one of the most popular tourist destinations in the country, this project, which falls under federal jurisdiction, would be an excellent opportunity for the government to make a tangible contribution to boosting Montréal's appeal and stimulating its economic growth. If the government were to take the lead in this regard, the private sector would almost certainly come on board with their own projects in the area.

In conclusion, now that the Canadian economy is recovering and the growth outlook is positive, we firmly believe that the federal government must seize the opportunity to honour its promise to balance the budget without raising personal or corporate taxes. It must implement measures to ensure sustainable economic growth and a healthy public purse. We therefore reiterate the importance of reducing the tax burden of businesses, improving the country's productivity performance, facilitating access to international markets and making strategic infrastructure investments.

Please be assured of the Board of Trade's full cooperation in the economic development of Canada.

Sincerely,

Michel Leblanc
President and CEO