fccq

Accelerate the Pace

Six Keys to Sustainable Wealth

THE POWER OF THE NETWORK

« Together, we still have huge untapped potential. We have no excuses anymore. »

Wealth creation is everyone's business

Quebec must continue moving ahead.
The glass really is half full.
Just like the Quebec economy.

NO EXCUSES ANYMORE

Compared to Quebec's performance in recent years, our progress should be perfectly obvious. GDP has bounced back. Unemployment is at an all-time low. Our employment rate outperforms the Canadian and OECD average. In numbers of high school graduates, we've closed a gap with the rest of Canada, including significant catch-up in the 20-to-25 age group. We have a dynamic capital market which, after some essential corrections, now largely meets the financial needs of Quebec-based businesses. And the Quebec government has eliminated its deficit, a feat that the Ontario and federal governments have yet to manage.

Together, however, we still have huge untapped potential. Our productivity trails behind Canada as a whole and the US, our two main partners and competitors. Our per capita GDP in 2015 ranked 21st among OECD member countries. In Canada, our per capita GDP in 2016 was barely 85% of the national average – a realistic medium-term benchmark for how much better we could be doing. If we could only reach the Canadian average, we would already be 18% richer. The fact is we are a developed economy whose development is nowhere near its massive potential.

We may have had excuses before…but not anymore.

EMBRACING CHANGE

Even more serious, the world around us is changing at an ever-increasing rate that threatens to impoverish us if we fail to embrace the changes with energy and pragmatism: rapidly aging populations, emerging technologies that disrupt consumption, industrial output, and economic models, the pressing need to manage climate change, the surge of protectionism and tax competition from the US.

Accelerate the pace: Six keys to sustainable wealth summarizes the FCCQ strategy for Quebec over a five-year horizon. Its objective: sustainable economic growth for Quebec. The document focuses on the key ingredients for wealth creation:

- **Workforce**
- **Capital**
- **Technology**
- **Infrastructure**
- **Energy**
- **Regulatory and business environment**

Our collective enrichment is a collective responsibility. It's everyone's business: entrepreneurs, workers, and public authorities. Which means that governments, unions, and business groups must assume their appropriate leadership roles.

This document summarizes the FCCQ's contribution to accelerating the pace of the Quebec economy.

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Key No. 1

Applied skills create wealth

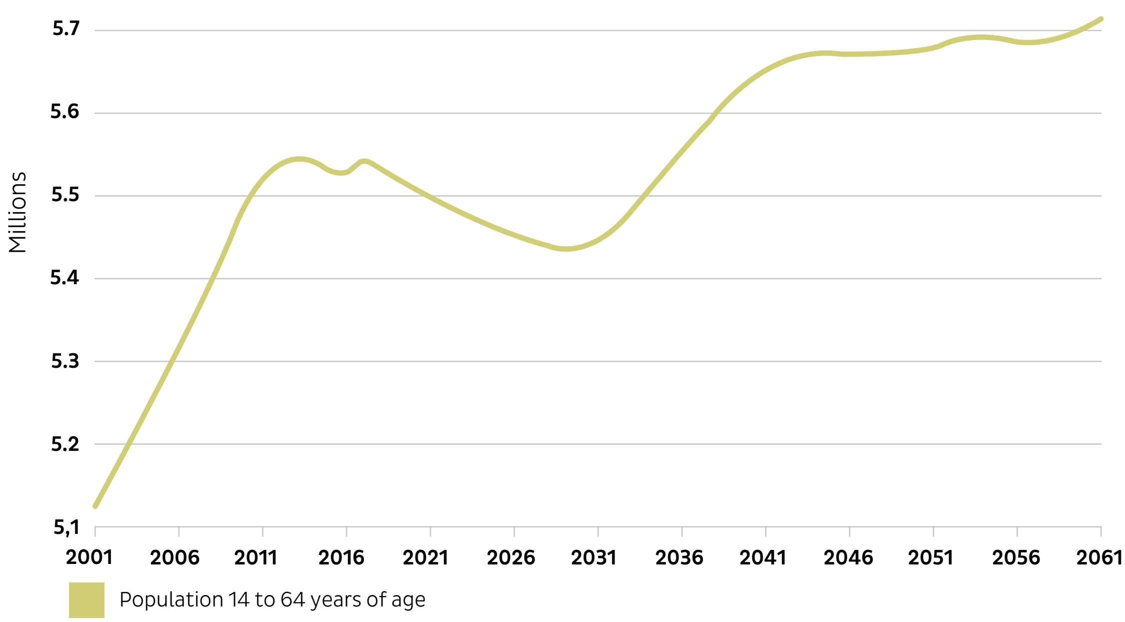
To create wealth, companies need enough employees with the right knowledge, skills, and attitudes to meet the needs of the 21st century economy. Quebec and its workforce face challenges on two fronts: demographics and skills.

A WORKING-AGE POPULATION IN DECLINE

After decades of obsessive concern over job creation for baby boomers, the challenge currently facing Quebec is how to fill the workforce vacancies in business.

For the next 15 years, our traditional labour pool (Quebecers 15 to 64 years of age) will steadily decline. By 2031, there will be 100,000 fewer workers than in 2018. Some regions and skilled trades already face labour shortages.

Figure 1. Changes in Quebec population (15 to 64 years), 2001–2061



Source : CIRANO, Le Québec économique, https://qe.cirano.qc.ca/print/3871, accessed March 13, 2018.

NEW KNOWLEDGE AND APPLIED SKILLS

Present-day production methods for goods and services require a workforce that's better qualified than ever before. This trend will grow even more as the current industrial revolution evolves. Like past industrial revolutions, ours will eliminate some jobs, but will also create new jobs that require new skills.

Which means Quebec must make sure there are enough workers available to grow our economy, and must see that these workers have, or can rapidly acquire, the skills that the 21st century economy demands.

Even less qualified workers will have to learn and use today's digital technologies, and work alongside robots on the job.

STRATEGIES

Develop and maintain skills

Where skills are concerned, we must act to assist young people and adults alike.

Companies need young graduates who can go on learning throughout their working lives. This requires a solid basic education, particularly a command of the three learning fundamentals: literacy, numeracy, and digital literacy (including basic IT coding skills).

Time is running out. The FCCQ urges the government to adopt appropriate education and training programs in Quebec schools by 2022 at the latest. Rather than endlessly debating ideal reforms, the FCCQ recommends giving educational institutions the freedom to experiment and the responsibility to evaluate and publish their results. The province's numerous vocational and technical training programs should likewise become ongoing, non-compartmentalized learning streams that people can access with ease.

At the university level, financial incentives should motivate more students to enroll in those disciplines where workforce shortages are most serious.

The 1% Law that was supposed to promote workforce skills and training has not lived up to its promise. Its primary purpose should be retained but pursued by other means. The FCCQ recommends the introduction of a voluntary continuing education savings plan along the same lines as Quebec's registered education savings plans.

Stimulate labour demand

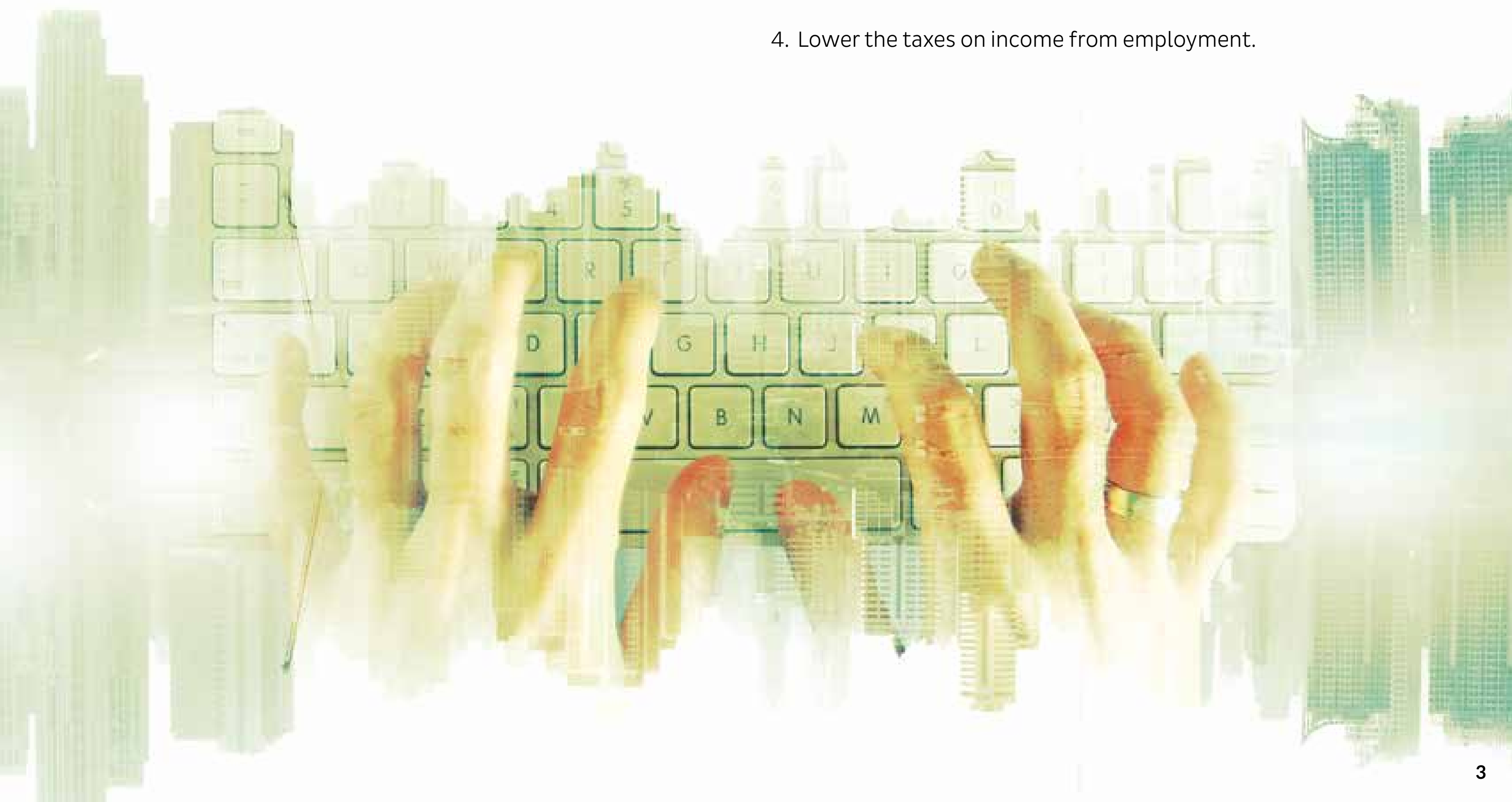
In the absence of a growing workforce demographic, Quebecers have four ways to stimulate labour demand.

1. Encourage workforce mobility, in terms of occupational as well as geographic options. Equally or even more important, eliminate any measures that actively discourage mobility – for example, regional partitioning of labour markets in the construction industry, or non-transferable seniority and pension plans in the education and healthcare sectors.

2. Raise the immigration target by 10,000 persons per year and streamline formal recognition of the existing skills immigrants already have. Employers should also be allowed to recruit skilled immigrants directly and access the profiles of applicants who have completed a Declaration of interest.

3. Encourage more workers to postpone retirement, now that any individual Quebecer can reasonably expect to live another 21 years after age 65.

4. Lower the taxes on income from employment.



Key No. 2

Invest more, invest better

Investment drives increased capacity and productivity in any economy.
Wealth creation and investment go hand in hand.
Quebec is a generally conducive place to invest.
Two issues, however, are of concern: our ability to compete on taxation, and the capital available to companies in their early stages of growth.

THE COMPETITION FOR CAPITAL

Capital investors look for projects that promise the best after-tax risk/reward ratio, no matter where in the world those projects happen to be.

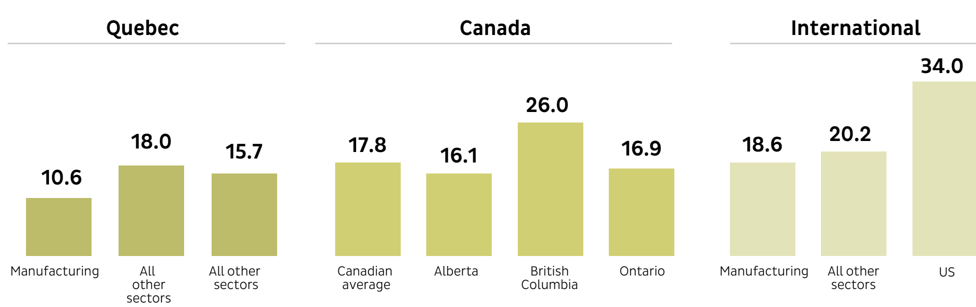
Quebec has plenty of advantages to offer investors. According to a study by KPMG,[1] Montreal is one of North America's most favourable metropolitan areas for operating costs (including wages, rentals, and energy). Measured by marginal effective tax rates on investment, the Quebec tax system is relatively competitive – about average for OECD countries. Our real challenge lies south of the border. The recent American tax reform is altering our competitive relationship with the US in a number of ways: statutory rate reductions, tax subsidies to certain sectors, and more.

The Quebec government must:

1. Always retain enough fiscal leeway to make adjustments possible if new strategies arise in competing jurisdictions.

2. Adopt a carefully targeted approach to tax credits, subsidies, and other business supports, with greater emphasis on systematic, rigorous evaluation of these measures and their effectiveness.

Figure 2. Marginal effective tax rates (%) on investment (METR)[2] – 2016



DEVELOPMENT CAPITAL

Generally speaking, there is adequate capital available for businesses in Quebec. However, capital markets have less to offer companies in their early stages of growth – after start-up, but before venture capital investors begin to take an interest. The government could stimulate this segment through a targeted tax measure.

« Two issues are of concern: our ability to compete on taxation, and capital for companies in their early stages of growth. »

Source: [1]KPMG, Competitive Alternatives: KPMG's guide to international business locations costs (2016 edition).
[2]Quebec Ministry of Finance.

Key No. 3

Technology: the engine of productivity

Don't expect miracles. No society grows rich, in the long term, any faster than its productivity improves. On this count, Quebec's performance is a cause for real concern.

According to a study by Deloitte,[3] productivity per hour worked increased by 11% in the Quebec manufacturing sector from 2002 to 2012 – a 1% improvement annually. In the same period, however, productivity increased by 33% in Germany, 53% in the US, and 91% in South Korea. With gaps like these, Quebec's manufacturing industries simply cannot remain competitive.

Technology is one of the most important generators of improved productivity.

INNOVATION – BUT MUCH MORE

Businesses generally acquire their technologies from two possible sources: those that they develop themselves, and those they acquire through licencing or as integral components in their machinery, IT systems, and other facilities.

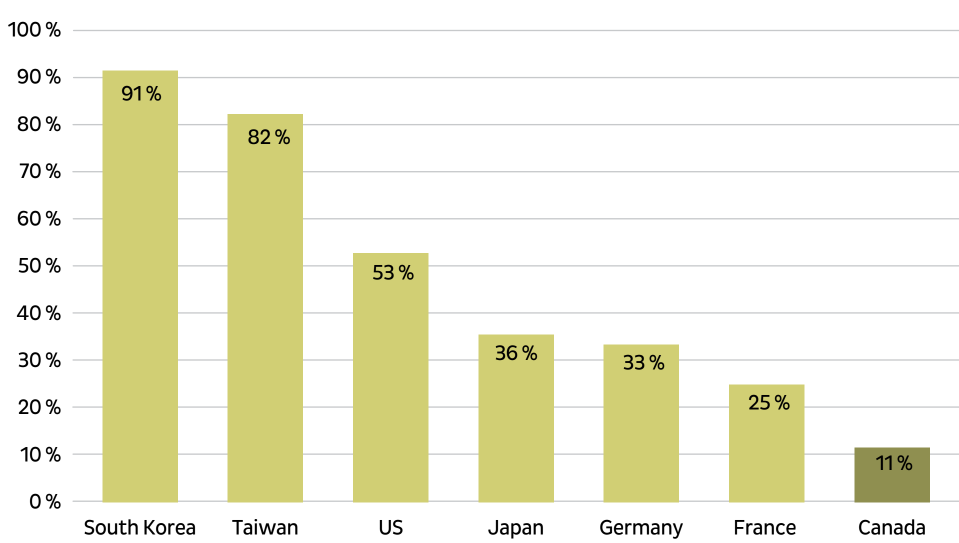
Despite lower R&D employment figures since 2002, Quebec still has a well-earned international reputation for R&D activity among companies located here, generating 2.4% of GDP. The Quebec government, we should add, is one of the most generous in terms of direct assistance in this area.

The largest companies receive the lion's share of this support, since they also generate the bulk of R&D investment.

For SMEs (and some large companies as well), bringing pre-existing technology on board may prove as profitable as their own internal R&D. According to a BDC study, 60% of all Canadian manufacturing companies that have adopted digital technology have increased their productivity. On average, these companies can expect more growth than others that have not. The government should redirect part of its current R&D support to acquisitions of existing technology.

« Technology is one of the most important generators of improved productivity…60% of all Canadian manufacturing companies that have adopted digital technology have increased their productivity. »

Figure 3. Gains in productivity per hour worked, 2002–2012[4]



[3] *Deloitte, Le Point sur le Québec Manufacturier – Objectif compétitivité, Édition 2015 [The future of Quebec's manufacturing industry – Focus on competitiveness] (2015).* [4] *BDC, Industry 4.0: The New Industrial Revolution, Are Canadian manufacturers ready? (Business Development Bank of Canada, May 2017).*

Key No. 4

Infrastructure is a must for growth

Even the most productive business will lose its competitive edge if it's supported by inadequate infrastructure – especially networks delivering raw materials, energy, finished products, and trade information with rest of the world (digital infrastructure).

The International Monetary Fund (IMF) and other international organizations agree that increased investment in infrastructure has a lasting impact on economic growth.[5]

PHYSICAL INFRASTRUCTURE: DIVERSIFIED FINANCING FOR SUSTAINABLE INVESTMENT

In 2007, after two decades of backlogs in public infrastructure maintenance, the Quebec government launched the Quebec infrastructure plan (PQI*). In 2016, the federal government followed suit and introduced a major infrastructure investment program.

Between 2017 and 2027, PQI investment plus inputs from federal, municipal, and other sources will total $111 billion.

Work on this scale must become a permanent feature of the new economy.

Financing investment through public debt was an appropriate strategy in the days when our economy had excess capacity and interest rates were low. As it approaches full capacity and with higher interest rates in the offing, the sources for funding investment in infrastructure will have to be diversified, particularly with a larger role for the private sector.

It's true that a few unfortunate projects have given public-private partnerships a bad name. Rather than rejecting the PPP formula outright, however, we should apply the lessons learned to improve the process and oversight.

DIGITAL INFRASTRUCTURE: BETTER REGIONAL SERVICE TO STIMULATE DEMAND

Quebec is relatively well served by high-speed internet (HSI): 86% of all homes can access connections of 25 Mbps or more. This ranks us 5th among Canadian provinces. The CRTC has established a $750 million fund with the goal of providing download speeds of 50 Mbps or more in 90% of all Canadian SMEs and homes by 2021. Over and above this target, Quebec should supplement CRTC funding to achieve 85 Mbps, the speed in Ontario, which historically has had faster internet than Quebec. SMEs and homes in Quebec also lag behind in terms of internet use, primarily because people are not trained to use it, but also because many do not appreciate its practical value. Efforts should be made to stimulate demand, with emphasis on promotion of the services available online.

« The IMF and other international organizations agree that increased investment in infrastructure has a lasting impact on economic growth. »

[5] *"Is It Time for an Infrastructure Push? The Macroeconomic Effects of Public Investment," ch. 3 of World Economic Outlook: Legacies, Clouds, Uncertainties (IMF, 2014), 75-114.*

**Plan québécois des infrastructures*

Key No. 5

Energy transition, a necessity, and an opportunity

Because hydroelectric power supplies an important part of our energy, Quebec's rating on greenhouse gas (GHG) emissions is one of the best in North America.

As for reducing our GHG emissions even further, there's no question whether we need to (the answer is Yes), or even when (the answer is Now). The only question is How.

Whatever strategies already exist, our energy balance sheet should make more room for renewable energy sources, whenever possible, and less for fossil fuels, with their heavier output of GHG emissions.

The transportation sector represents 41% of our GHG emissions and 62% of all the petroleum products we consume. Action here should be a priority.

Quebec's energy transition is based on two basic tools: the 2006 climate change action plan (PACC*), which created the Green Fund to support GHG reduction initiatives, and the GHG emission cap-and-trade system,** in cooperation with Ontario and California, which provides the bulk of Green Fund financial resources.

The cap-and-trade system creates a competitive disadvantage for Quebec-based businesses, as it entails costs that do not exist in any other Canadian provinces or American states. Our companies will therefore need support so that they can adapt and improve their energy efficiency performance. Green Fund resources, however, have been spread thin over a host of projects whose relevance to GHG emissions is often slim at best.

Four strategic directions

1. **Design energy transition as a vehicle for growth** – an opportunity for Hydro-Quebec to use its surplus capacity, and for a Quebec-based green energy industry and smart energy technologies to emerge.
2. **Continue to invest in sustainable mobility** – enhanced access to alternative modes of transport, rapid construction of alternative fuel and charging stations, and multimodal transport infrastructure.
3. **Refocus Green Fund investment on GHG reduction**, lower energy consumption, and mass transit.
4. **Maintain the competitive edge of Quebec-based businesses**, despite cap-and-trade costs, with ongoing support for their energy efficiency programs through financial assistance and tax incentives.

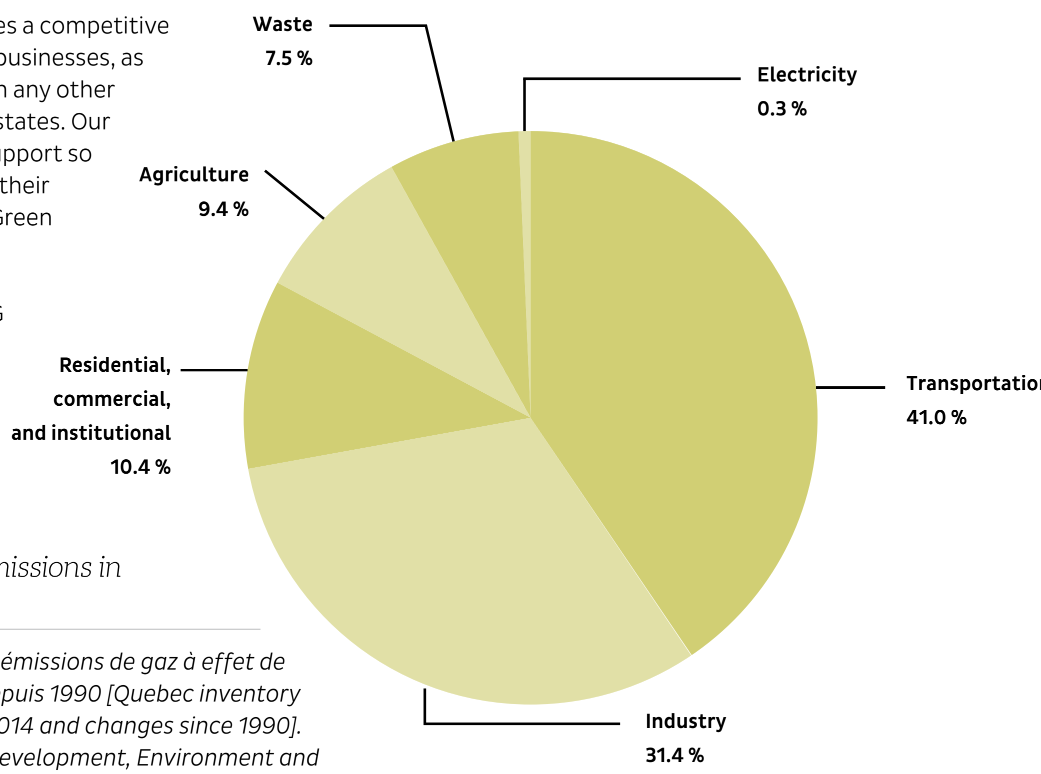


Figure 5 : Greenhouse gas emissions in Quebec by sector in 2014

Source: Inventaire québécois des émissions de gaz à effet de serre en 2014 et leur évolution depuis 1990 [Quebec inventory of greenhouse gas emissions in 2014 and changes since 1990]. Quebec Ministry of Sustainable Development, Environment and Fight against Climate Change (MDDELCC), 2016.

Key No. 6

Freedom of initiative

In any society, economic success is largely conditioned by two relatively intangible but ever-present factors. One is government regulation and its related constraints. The other is the public's attitude toward business and investment, and the surrounding environment.

RECONCILING REGULATION AND INNOVATION

Regulation is something we all need in order to guarantee fair rules in business, protect consumers and employees, and safeguard heritage community assets – starting with the environment.

Regulation, however, should be judged by results, not by the regulator's ideas, however well-intentioned. Obsolete regulations often remain on the books through sheer inertia on the part of regulators, or because they serve some special interest group without regard to other stakeholders or the public.

What's more, regulations can discourage, hold back or even block the development and implementation of innovations. Taxi services, housing, parking, food service, business start-ups – everywhere new financing models and technologies are shaking up the establishment and raising a challenge to regulators – whose mission should be to promote innovation.

It's essential to strike a balance between the legitimate need for rules that protect consumers, businesses, workers, and the environment, and the need to encourage experiments with innovative technologies and business models.

One solution the FCCQ favours is a regulatory sandbox, a concept that was developed in the highly regulated financial services industry.[6] In sandbox mode, adventurous firms with new products, services, business models, or distribution methods that don't fit existing regulatory frameworks can roll out their innovations and test them on the market. These market tests are supervised by the regulator, and customers or clients are notified in advance that they are not 100% protected by existing regulations.

AN ECOSYSTEM PROMOTING ENTREPRENEURSHIP

Entrepreneurial intensity in Quebec[7] has declined since the early 2000s, and by now is well below the Canadian average. To sustain entrepreneurship, the FCCQ wants the government to act on two fronts:

1. Support an economic culture that values risk-taking and free enterprise, particularly by raising young people's awareness of entrepreneurial values while they are still in school and by educating adults in business knowledge and skills.

2. Free up corporate financing to allow entrepreneurial activity that's consistent with today's changing technologies and markets, including easier succession plans in family businesses, support for crowdfunding, and streamlined immigration procedures for investors who wish to settle in Canada.

First and foremost, however, every government can and should prevent any possible conditions that discourage initiative and investment. Government must create more robust conditions, including, among other things, a competitive tax load, streamlined administrative and regulatory processes, and a lower-than-average debt ratio.

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[6] *A good example is the Canadian Securities Administrators (CSA) Regulatory Sandbox, which supports innovative fintech businesses (firms specializing in financial technologies).*
[7] *Entrepreneurial intensity is measured as the percentage of the working population who have become independent workers in the last year and who have hired at least one employee.*

RECOMMENDATIONS

«Regulation should be judged by results, not by the regulator's ideas, however well-intentioned.»

No. 1

Workforce

Upgrade worker skills and deal with labour shortages

Focus on training that's readily adaptable to Quebec's present and future economic needs and introduce measures to help businesses deal with labour supply challenges.

EDUCATION AND TRAINING

- Allow elementary and secondary schools more freedom to develop specific teaching projects that focus on the basic skills demanded in today's labour market.
- Adapt the elementary and secondary school curriculum by 2022 to ensure literacy, numeracy, and digital literacy among high school graduates.
- Facilitate student transitions from one educational level to the next, as part of their ongoing vocational and professional training.
- More effectively coordinate vocational and college-level training programs that are similar in nature.
- Actively promote the employment opportunities that exist in professional, college, and university programs.
- Create scholarships and other incentives favouring programs that lead to jobs in areas where labour shortages are most serious.
- Create a voluntary continuing education savings program that would replace the 1% payroll contribution to the Workforce Skills Development and Recognition Fund (mandated in the Act of the same name).

MOBILITY

- Abolish default partitioning of labour pools by region (for example, in the construction industry).
- Introduce rules that allow employees in the education and healthcare sectors geographic mobility and relocation without penalty.
- Increase the tax deduction for moving expenses.

IMMIGRATION

- Increase the number of immigrants entering Quebec by 10,000 per year.
- Allow employers to directly recruit immigration applicants who have completed a Declaration of interest.
- Implement the recommendations of the Quebec interministerial committee on the recognition of the skills of internationally trained immigrants.

RETIREMENT

- Encourage retention of experienced workers on the labour market:
  - Identify and publicize best practices.
  - Work with companies to adapt their workplace environment and work organization.
  - Enhance the Quebec Pension Plan deferred retirement incentives, plus measures that would encourage employers to organize and facilitate lighter workloads for employees who continue to work after age 65.

TAXATION

- Encourage people to work by shifting part of the tax burden from earned income to other taxable categories, such as consumption, that are less unfavourable to growth.

No. 2

Available Capital

Support new companies in their early stages

Tax policies that promote a competitive, business-friendly Quebec.

- Make capital more readily available to companies in their early stages of growth, when they need to build production and distribution capacity.
- Regularly evaluate the effectiveness of tax and budgetary expenditures to ensure that the Quebec government has sufficient leeway for allowing a tax policy that attracts investment yet maintains a balanced budget.
- Allow full capital expenditure deductions in the year when such expenditures were incurred, particularly for the resource extraction and manufacturing sectors.

No. 3

Technology Intensity

Significantly faster productivity improvement

Focus on better integration of existing technologies while creating new opportunities to innovate.

- Redirect part of the government assistance currently earmarked for R&D to programs and tax policies allowing accelerated uptake of existing technology for significantly improved business productivity.

No. 4

Infrastructure

Provide Quebec and its regions with the tools they need for growth and prosperity

Make high-speed internet access a reality for all businesses and households in Quebec.

- Increase the investment required to make high-speed internet connections available to all companies and households in Quebec.
- Boost internet speed in Quebec to catch up with Ontario to provide a wider selection of services available exclusively online.
- Facilitate private sector and institutional capital investment in the design, financing, construction, operation, or repair of public infrastructure, and for projects where there is a competitive market of developers qualified to assume risk for the given type of project.

No. 5

Energy Transition

Make the energy transition a vehicle for growth

Make better use of available funds by concentrating on programs that eliminate the most GHG emissions, maximize energy efficiency, and deliver sustainable mobility, while maintaining our competitive edge for Quebec-based businesses.

- View the energy transition as a vehicle for growth and transformation in the Quebec economy.
- Invest in sustainable mobility (transportation of people and goods):
  - Increased investment in mass transit
  - Accelerated adoption of low-emission vehicles
- Better use of Green Fund investments:
  - Target low-cost GHG reduction programs
- Improve energy efficiency programs to maintain the competitive edge of Quebec-based businesses

No. 6

Regulation, Entrepreneurship, Business Conditions

Adapt our business models to manage change and encourage risk taking and entrepreneurship

Allow innovative companies to test their new products, services, or distribution methods in the market, outside current regulations, while maintaining a favourable climate for investment, particularly through streamlined regulations.

- Make more use of regulatory sandboxes to develop flexibility and allow innovative companies to test new products, services, and economic models in the actual market, even though these may not meet current regulations.
- Create an authentic youth entrepreneurship strategy in Quebec.
- Encourage growth of business schools and increased business education initiatives.
- Enhanced enforcement of Quebec government policy on regulatory and administrative streamlining.
- Ensure better convergence between the innovation and entrepreneurial ecosystems, particularly to promote the emergence of start-ups.
- For marketing new products, implement the 1% SME Innovation policy on calls for tenders by large companies and the public sector, and encourage development of COREX-type marketing platforms.
- Adjust tax conditions and available tools to allow more gradual transfers of ownership.
- Study the competitive position of Quebec regulations on crowdfunding and encourage use of this option.
- Allow more flexibility in approval criteria for immigrants who are investors or entrepreneurs.

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