



Remarks by:

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Check Against Delivery

Cela me fait grand plaisir de me trouver ici aujourd'hui, avec vous, dans l'une des villes les plus belles au monde, avec son cachet historique tout à fait spécial.

The relationship between La Belle Provence and RBC is over 120 years old. Our first branches opened in 1890 here in Montreal, and today we have almost 8,000 people working in Quebec. It remains our official Head Office and we are very proud of our relationships and customers throughout the province. I should point out that, notwithstanding, that I have not lived in Montreal since 1979 (as you can tell from my French), it remains my hometown and my allegiance remains with the Habs and the Alouettes.

There are a number of RBC people in the audience today who represent us throughout Québec and who do an outstanding job on our behalf. In particular, I would like to recognize: Micheline Martin, President, Quebec for RBC Royal Bank – and - Michael Fortier, Vice Chairman and Head of Quebec, RBC Capital Markets, as well as, two of our directors - Paule Gauthier and Jacques Lamarre. On their behalf and mine, we appreciate the confidence and support of our customers who last year ranked us #1 in client satisfaction, and you can be sure that we are committed to making this a long term trend!

There is currently, in my view, an unparalleled opportunity for Canada to experience a breakaway decade – to significantly outperform the developed world in terms of economic growth and social leadership.

The ingredients are in place for us to achieve unmatched success if we ensure that we capitalize on our current strengths and focus on our weakness. Today, I would like to comment on why we are in such a strong position but, more importantly, what we have to do to ensure we capitalize on it and, indeed, make this Canada's breakaway decade.

When you look at our relative strengths in a world that is grappling with so many issues, our potential seems limitless:

- We live in the second largest land mass which is rich in natural resources;
- We live our lives largely free of social upheaval and institutionalized injustice;
- Our economy, despite the challenges of the recent financial meltdown, continues to show remarkable resilience;
- The value of our housing market --- the greatest source of individual wealth in Canada – is now slightly higher than the pre-recession peak -- whereas our neighbours to the south are dealing with housing prices 30% below that high water mark;
- Eleven years of fiscal surpluses leading up to the economic crisis provides us with tremendous flexibility at a time when other countries have little room to maneuver and face massive restructuring;
- Canada has a banking system lauded globally for its strength and stability, along with a sensible, effective regulatory framework that was well tested during the recent financial crisis; and
- Our corporate tax rates are a clear competitive advantage in attracting international companies to locate in Canada.

Canada today is an attractive place to live, work and build successful businesses. And with continued fiscal responsibility, we should be able to avoid the current plight of many countries that will be forced to undergo painful restructurings to address their systemic failures.

So, all of these facts allow me to say with confidence that Canada is facing the possibility of a breakaway decade.

Note, however, that I've purposely used the word 'possibility'. I think we can succeed, but we cannot lose focus on what got us here and we have to address some challenges that could set us back in terms of our global competitiveness.

Three areas that I would highlight are:

- 1) the importance of restoring fiscal balance both at the federal and provincial levels;
- 2) the necessity to maintain sound immigration targets and policies to ensure our country continues to grow; and
- 3) the requirement to deal with our Achilles' heel – innovation and productivity.

I would begin by commenting on our low productivity which is one area holding Canada back from maximizing its potential in an increasingly globalizing world. Innovation-fueled productivity is the lever we can pull to increase the economic pie we all share, and in doing so, improve our standard of living and gain competitive clout in the global marketplace.

I have to admit I felt a bit hesitant about bringing this topic to your attention today. Canada has had more conferences and speeches on productivity and innovation than any other place on earth. Even the Montreal Chamber of Commerce has heard from no fewer than three speakers on the subject in the past three years! Adding one more speech to the pile isn't going to help. We need action and follow through to address our position as among the least productive and least innovative industrialized nations in the world.

We should be proud of our successes and prosperity as a nation, but we cannot be complacent and notwithstanding strong performance on most economic measures, our competitive position in a globalizing world has slipped. In this new world order, we are not longer competing against the G8 -- but also with emerging economies who are making significant investments in innovation and production. Our productivity and competitiveness will be a key driver in determining whether we can continue to outperform.

If we don't address our Achilles' heel, Canada's productivity gap will continue to consume large chunks of Canadians' pay cheques. Productivity measures how much is produced for each hour worked and today, our citizens produce thousands of dollars less per capita than Americans.

Low productivity affects employment, trade, new company formation and where businesses chose to locate. Ultimately productivity is a key driver of GDP growth and a nation's living standards.

One of the challenges is that it's hard to create a sense of urgency about productivity as it is a complex area to understand and because we look around us and see that Canada is a prosperous country. Our GDP per capita is strong and, as I said earlier, relative to most developed countries, things are pretty good. In many ways, sound policies of the past combined with a little bit of luck significantly shifted our global positions as we managed through the recent economic crisis. But as we increasingly rely on emerging industries and value added exports to drive growth, productivity will be essential to employment and prosperity.

If we don't take advantage of our current strength to ramp up investment, we will have wasted an opportunity and it will impact us in the long term.

Productivity has been a challenge in our country for a long time. In the last thirty years the productivity gap between Canada and the US has more than tripled and leading up to the crisis, we had lost considerable ground in terms of economic performance. This productivity gap reduces each Canadian's share of output by \$12,000 per year. Our weak dollar combined with strong demand for our commodities helped compensate for this productivity gap but we have now lost at least half of that advantage as the expectation is for our currency to remain high. And while strong demand for commodities is helpful to Canada's growth, it will not create the jobs of the future.

What do we have to do to correct it? And who is "we"?

To correct it, we have to make innovation central to business strategies and the 'we' is all of us: business, government, labour and academia, working together.

Our governments are on board with the innovation agenda. They've cut regulatory and tax burdens. Our universities, hospitals and a new generation of research institutes in every province are also taking research out of the lab and getting it working in the marketplace where it can create jobs, companies, and even industries.

So, in the main, I think that business needs to take up this cause, to undertake more R&D and for us to collectively focus on ways to improve the commercialization of our science and ideas.

I think it's our turn as business leaders to say, thanks to the government for the tax reform, and now we are going to use it to invest and make innovation part of our agenda.

And there are many companies who have done just that, here in Quebec and across Canada. They're the companies who know, absolutely, that the velocity of change in their markets is just going to get faster, and that their revenues five years from now will come from products or services that don't exist today. Their sense of urgency to anticipate change and act on it reflects a world economic order that is changing at lightning speed.

Quebec's aerospace industry is a shining example of what innovative companies are doing and while we don't want governments to pick winners, having an industrial strategy around a specific segment is both a smart and proven policy. CAE is a world leader in providing simulation technologies and integrated training solutions for the civil aviation industry and defense forces. Bombardier is a global leader in aerospace and rail transportation. And there are other companies in all parts of the aerospace industry in Quebec that are innovative, supportive and that continue to flourish with strong support from both government and academia.

And productivity is not just about high tech industries. Bombardier Recreational Products spends proportionately more than their competition on R&D to maintain its competitive edge.

Dollarama, with world-leading cost and profitability metrics in its industry was born and raised in Quebec and it's established itself as the world's leading sourcing operation for low-priced merchandise in low-cost countries – that's productivity. The same can be said for Montreal-based Gildan, which now markets and manufactures clothing all over the world. And then there's Yellow Media, which is transforming from the old to the new --basic print to digital and internet.

These are great examples of the power of productivity investment but we need more and from all sectors including small and medium sized enterprises that ultimately drive our economy.

Strangely, these innovative, home grown companies won't be found by googling the words 'Canada' and 'innovation'. If you do that, you'll discover that Canadians invented many things -- insulin, the zipper, standard time zones and the telephone. (Also notable would be the snowmobile --- and of course my favourite -- poutine.)

But productivity is less about invention and more about making existing things better and more efficiently. I call it innovation with purpose. What is the future of telecom, smelting, energy or banking? There are thousands of smart and engaging people trying to find ways to better serve clients, improve margins and power growth. And if we don't do it in Canada, someone else will do it for us.

In my industry, we assume that to compete globally we must offer better products, through multiple platforms and at a lower cost. The only way to do that is to constantly improve our productivity.

At RBC, we're aggressively pursuing innovation and we currently have the highest level of capital expenditures in our history.

- We're making major investments in our technology infrastructure to streamline processes so that experiences like opening a new account is not about the client filling out multiple forms but about helping us understand how we can best advise and help the client with their financial goals.
- The way that our customers buy products and the way we fulfill those products is changing dramatically. As an example we have a new banking application that can be used on any hand held device that's one of the most downloaded banking apps in the market.
- In our capital markets business, a new leading edge technology called "Thor" helps our institutional investors execute large volume trades instantaneously at the best available price in the market. Our clients have benefited from Thor, and we have benefited from the competitive advantage we've achieved through this innovation.

RBC is also very active in supporting the commercial success of knowledge-based industries. We have a group dedicated to growth companies of all sizes in emerging market sectors that are R&D oriented, highly innovative, export oriented and with high growth potential.

We're honoured to be the leading bank in this sector of the Canadian marketplace, and we got there by building teams of specialists in information and communication technology, cleantech, media and entertainment, and life sciences and healthcare.

Another important industry to Canada is oil and gas and just last month, The Globe and Mail had a headline which read "A country built on crude". Yes, our oil and gas industry is an absolutely vital part of Canada's economy, but it too is a world leader in technological innovation.

Its enormous R&D investments improve production efficiencies, reduce emissions and water use, reclaim land, and address other environmental issues. Commercialized innovations like Carbon Capture and Storage and Toe to Heel Air Injection will end up contributing to Canada's future productivity.

Whether it is aerospace, banking, energy or any other industries, we have the ability to be global leaders if we continue to invest. Doing that requires R&D spending, and in Canada, companies in aggregate have been reducing R&D spending for the past three years and we constantly under spend on a relative basis. When you look at patents – another marker for innovation -- again we are a laggard. We must take advantage of our current strength to reverse this trend.

A large part of innovation and productivity gains will also come from small and emerging businesses. Canada has some extraordinary organizations that are pushing innovation agendas and playing important partnership roles with entrepreneurs and emerging businesses.

I'm Chairman of one such organization – MaRS in Toronto, and I've seen many examples of how the simple commitment to innovation can generate explicit commercial success and a myriad of other benefits. At MaRS, we connect scientific discovery with market opportunities and help develop, nurture and grow ideas into businesses and commercial success.

Other promising trends are also emerging. Many of our scientists are returning home and new research chairs are being created. Our innovation centres and think-tanks are in place and active. Connections among academia, business and government are growing stronger every day. The more these connections happen, the more ideas will cluster together into new products and services, and the more we'll see new companies emerging.

We have put in place a lot of the ingredients for success but, frankly, we have yet to reach the milestones required but we can't back away. We have to keep up the pressure and continue to support and expand our programs even in the face of government spending cutbacks.

It is difficult to maintain programs and spending on innovation at a time when government is assessing all spending programs but it will in the long run pay dividends (U.S. example). Finally, business has to step up and seize these opportunities and invest.

Another key ingredient in ensuring Canada's economic growth and productivity enhancement is by ensuring we capitalize on immigration and our strength as a multi-cultural society. Our population is aging, and underwriting their retirement years and health care will present a serious fiscal challenge – nowhere more so than in Quebec and Ontario.

After 2015, almost one in five people will be senior citizens, and we will increasingly rely on new Canadians to sustain the tax base, support our health care system, build businesses and contribute to Canada's productivity and intellectual capital.

We need and want a steady inflow of educated, talented, hard working and innovative immigrants to fuel and grow our standard of living. And given what is going on in the United States and Europe, we stand out as a country with both the capacity to attract and the ability to integrate new Canadians.

I believe that our ability to attract and our capacity to absorb is an incredible competitive advantage for Canada and each of its provinces, and essential for growth and enhanced productivity. Today, immigrants are our main source of population growth, and we need this population growth to achieve economic growth.

The other irrefutable fact is that businesses that take strategic advantage of this pool of talent will see their productivity and bottom line grow. We have certainly experienced this first hand across all of our businesses and geographies.

The final area I would emphasize to ensure it is Canada's breakaway decade is to encourage our governments to maintain fiscal discipline. For Canada to continue to set itself apart, we cannot allow our fiscal position to deteriorate further. We cannot let the advantage gained through 11 years of fiscal responsibility slip away. Notwithstanding, the political challenges of fiscal restraint – it is, in my view, essential that the provinces and the federal governments aggressively work their way back to fiscal balance.

Other countries like the United States and many in Europe will face significant challenges as a result of their fiscal imbalances. The math suggests inevitable restructuring – higher taxes and less spending – which will impact their flexibility and growth. If we can maintain our discipline, it will give us a huge competitive advantage and the ability to invest in infrastructure and areas that will ultimately make us more competitive. For us to forfeit this advantage would be tragic.

We can easily muster the spirit and will to win at the innovation game in Canada. We need only look back to the Winter Olympics, just over a year ago, when Canada, suddenly, out of nowhere, won more gold medals than any other country in the history of the Winter Olympics.

In my view, this was the outcome of one of the most successful R&D program in the history of our nation: the Own the Podium program. It was innovative, it was focused, it captured our attention and enthusiasm as an important undertaking, and it was funded.

It's now the turn of Canadian business to begin thinking in an Olympian way – and make its own investments in dramatically improved performance.

We have never been better positioned – our fiscal position, our talent capacity, our tax competitiveness, our resources, our educational institutions, our multiculturalism and our recent economic performance.

We have never been in a better position to invest, to innovate and to do the things that will close our productivity gap and create wealth. But we can't be complacent. We must keep our foot to the pedal on all fronts.

We must continue to hold our doors open to immigration and make integration, diversity and multiculturalism work. We must continue to maintain fiscal discipline. And finally we must close the productivity gap and ensure that we grow the next generation of Canadian success stories.

If we can rise to this challenge, all Canadians will benefit. It will ensure that we capitalize on our unparalleled position to ensure Canada does have a breakaway decade.

Thank you.