

Strengthen the Knowledge-Based Economy

Issue

Worldwide, companies formed on biotechnology have generated employment, benefits to patients, and substantial economic value. Although Canada excels in basic research it has failed to share in the worldwide biotech boom because, where the majority of risk-tolerant capital is provided from public capital markets only in Canada are life sciences companies obliged to compete for public risk capital against capital subsidies for other industries.

Background

Canada's biotechnology sector has the ability to be an important driver of the Canadian economy, as it is in the United States, much of Europe and numerous other countries, and to continue to be one of two key engines of employment growth for the foreseeable future.

The aging of the population has already demonstrated rapidly increasing demands for drugs, diagnostic equipment and therapies. Biotech companies have already produced protection for our environment and have importantly advanced the world's food supply. In order for Canada to catch up in this robust and critical area of the international economy, it must competitively position its biotech sector through regulatory, tax, intellectual property and other policies.

The challenges facing the growth and development of the biotechnology sector are very similar to those of the natural resource sector: large capital requirements, low probability of success and long timeframes before reporting positive cash flow with biotechnology having larger capital requirements and longer time frames. Canadian governments have long recognized those specific issues challenging the natural resource sector and, for the past ~50 years have had in place specific programs to address those risks and to encourage capital into the sector. The Mining Exploration Tax Credit (METC) and flow-through share financing support mining companies raising exploration and development capital, keep investment in Canada and sustain [grassroots] exploration activity. Since 2006, the METC has allowed mining companies to raise over \$5.5 billion for exploration and development. In 2013, more than 250 companies issued flow-through shares eligible for the METC to over 19,000 individual investors.

The Scientific Research and Experimental Development (SR&ED) program provides tax incentives to encourage Canadian companies of all sizes and in all industry sectors to conduct research and development. These tax incentives come in three forms: an income tax deduction, an investment tax credit, and, in certain circumstances, a refund. This assistance supports and is welcomed by biotechnology companies; however, it does not provide an incentive for third-party capital investment.

Canada is a global leader in both educational attainment and scientific research, yet the rate of successful commercialization of Canadian intellectual property discoveries is well below its scientific peers and competitors: the United States, France, Britain, Sweden, Netherlands, Germany and Switzerland. The Canadian Chamber of Commerce identifies lack of capital as one of its Top Ten Barriers to Competitiveness. The very limited capital that has been provided in Canada to finance the costs of commercializing research is recognized as the single greatest reason for Canada's biotech companies to be barely represented on the international scene, notwithstanding the excellence of Canadian basic medical science. In the same way that flow-through shares are successful in encouraging exploration and development in the mining and petroleum sectors, expanding the creative and thoughtful flow-through share program to the biotech sector would permit Canada to compete in the international arena with a direct and measurable impact on permanent employment, the building and management of technologically-advanced factories and a measurable benefit to provincial health plans with the replacement of imported drugs.

A study by PricewaterhouseCoopers LLP in 2010 analyzed the potential economic impacts of allowing the biotechnology sector to use flow-through share financing. The study identified an increase of R&D spending by \$411 million, a total gross output impact of \$967 million, and the creation of 7,945 full-time equivalent jobs. That same study also points to an increase in government taxes collected totaling over \$80 million.

Recommendation

That the federal government extend flow-through shares incentives to Canada's biotechnology industry.