

49. Development of R&D and Commercializing Innovation

Issue

Giving renewed momentum to innovation is a matter of priority to increase investment and productivity. Beyond the need to encourage higher R&D spending, it is mostly the capacity to translate R&D into innovation projects supported by aggressive marketing strategies that will ultimately determine the capacity of Canadian companies to develop high technology products and increase their competitiveness in the domestic and global marketplace.

Background

In its 2012-13 Budget, the Canadian government introduced a reduction of R&D tax credits. The investment tax credit (ITC) rate was reduced for large corporations from 20% to 15%. The rate for SMEs stayed at 35%, but the measure also includes the elimination of capital spending from allowable expenses. Moreover, the government reduced allowable expenses of arm's-length subcontractors to 80% of total expenses. Finally, the proxy amount allowing overhead expenditures to be claimed without justifying each expense was reduced from 65% to 55% between 2012 and 2014. The reduction in R&D tax incentives, however, was accompanied by an increase in direct assistance, particularly in industrial research (increase in the Industrial Research Assistance, or IRAP, program budget), at the level of venture capital and by making the Build in Canada Innovation Program (BCIP) permanent (recurrent funding of \$40 million a year).

OECD data reveal, however, that Canada is losing ground in terms of R&D. Since 2004, the R&D spending-to-GDP ratio has decreased. The decrease accelerated since 2012 to reach 1.6% of GDP. The decrease in Canada is in contrast to the increases observed in recent years in the United States (2.7% in 2012), for the OECD average (2.3% in 2012) or in China (2% in 2012). OECD data also reveal that Canada, perhaps because its economic structure is heavily oriented towards natural resource exploitation, has a technology balance of payments¹ as a percentage of Gross domestic expenditure on R&D that is particularly low² (as a comparison, 4% in Canada in 2013 vs. 30% in Australia).

Positioning Canada as one of the leading economies in innovation is extremely important. In a context of globalization, the new economic and technological paradigm means that industrial and commercial excellence is the norm. Canada must reinforce its innovation system and its international commercialization strategy.

Recommendations

That the federal government:

1. Increase the importance of innovation in the public procurement evaluation criteria to assist the commercialization of new innovative products as defined by the OECD and by business. Where possible, the federal government should act as first user and showcase in support of commercialization in domestic markets and export marketing.
2. Complete its economic policy with associated measures favouring the commercialization of innovation, by making high calibre strategic information available to companies with in-depth market studies and updated economic and industrial data.
3. Place at the heart of Canada's innovation strategy an approach based on training and attracting the best scientific, technical and strategic talents.

¹ The technology balance of payments is an indicator of international transfers of technology: licensing fees, purchases of patents and payment of royalties, know-how, research and technical assistance. Contrary to research and development (R&D) expenditures, these payments concern technologies that can be used in production.

² Technology balance of payments: payments as a percentage of GERD (Gross domestic expenditure on R&D). DOI:[10.1787/msti-v2015-2-table68-en](https://doi.org/10.1787/msti-v2015-2-table68-en)

4. Recognize the importance of investing in modern equipment to drive innovation in the long-term, by way of fiscal incentives which will ease corporate financing.
5. Coordinate with all government levels to provide clear information and efficient access to various business support programs, particularly with regard to R&D, innovation and commercialization.
6. Implement measures supporting investments in innovative start-ups, particularly by way of incentives for the formation of equity capital and the development of models of support which enable the commercialization of technologically advanced products and services.
7. Modernize the regulatory framework to support the commercialization of Canadian innovation.