Budget 2013: Checking the Pulse of Canada's Innovation Policies
The 12th Annual RE$EARCH MONEY Conference
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At a Glance

Large versus small, direct versus indirect

Jeffrey Crelinsten, Publisher, RE$EARCH MONEY, identified two themes that emerged from the previous year's conference, which would remain relevant in the 2013 deliberations. The first was the ongoing tension between the considerable support provided to start-up firms and the relative dearth of support for enterprises that have grown past a certain point. Although SMEs are widely celebrated as a source of employment, once they've passed the start-up stage there is precious little support for them. Without such support, Canadian SMEs rarely mature into large anchor fimrs, disappearing through failure or acquisition. Without domestic anchor firms, Canada's innovation ecosystem will remain fragile and vulnerable. Crelinsten noted a similar tension between policies endorsing direct or indirect support for R&D, strategies that could each claim to have particular advantages and disadvantages.

These same two themes — along with their respective tensions — figure largely in the 2013 federal budget, he noted. A tapering of support for the Scientific Research and Experimental Development (SR&ED) tax credit, coupled with a move to transform the National Research Council into a Research and Technology Organization, signals a fresh emphasis on direct support for R&D. Yet SR&ED continues to favor start-up firms over more established firms.

Building on the Jenkins report

The Hon. Gary Goodyear, Minister of State, Science & Technology and Federal Economic Development Agency for Southern Ontario, gave the opening keynote. He cited the Expert Panel Report on Federal Support for R&D (better known as the Jenkins Report, for panel chair Tom Jenkins) as a guiding document for many of the measures in the 2013 federal budget, specifically those which would help businesses improve their research capacity. Goodyear insisted that this move does not represent a favouring of applied research over pure research, but rather what he described as an acknowledgement that these activities contribute together to improving the economic and social prospects of the country. As for how those improvements are measured, he suggested that the current suite of metrics for R&D does not capture everything that is important, and he has challenged the Science and Technology Innovation Council to come up with better criteria.

Procurement and the private sector

Tom Jenkins, Executive Chairman of Open Text Corporation and chair of the panel whose report is popularly known by his name, promised a brutally honest assessment of the country's research system from a private sector perspective. He recounted that during his exploration of why some countries excel at innovation, he was told that these were also countries that have developed focused and coherent policies on defence procurement, using the considerable purchasing power of the military as a means of establishing solid markets for domestic manufacturers. He also argued that universities are hurting themselves by zealously going after every kind of government support to increase funding for basic research . He added that surveys of academic researchers reveal their work to be more satisfying when it finds some application that makes it more relevant to Canadian society. In light of the massive amount of money that the federal government will be putting into its refitting of all three branches of the armed forces — upward of $500 billion over the next two decades — he suggested that a huge opportunity has opened up for funding basic and applied research and for firms seeking lead customers for their new products and services through military procurement.

Budget 2013 overview

David Watters, President, Global Advantage Consulting, offered an overview of the recent federal budget,

citing three trends that reveal much about where the current government's innovation policy is heading. The first was his observation that the actual amount of money dedicated to research and innovation is comparatively small; far more is being invested in infrastructure and military refurbishment, even though these areas tend not to be greeted with the same enthusiasm as money put into the granting councils. Secondly, direct support for university-based research is declining, even as new avenues are being created to invite the country's colleges to play a bigger role in research and skills development. Finally, he listed no fewer than 12 sector-based R&D strategies, targeting areas like aerospace or the automotive industry, which he interpreted an indication that the federal government wants to target its support much more carefully.

The grass is not always greener

However challenging Canadians might think their current economic circumstances to be, the situation pales in comparison to some of the truly dire conditions on the other side of the Atlantic Ocean. Tim Bradshaw, Head of Research & Innovation at The Russell Group, UK, illustrated the effect these conditions are having on R&D in the EU. While governments there have significantly restricted many sorts of direct spending on innovation, he explained, they have also resorted to more concerted efforts to establish a new degree of collaboration between universities and industry. In the UK this process has been shepherding research into the marketplace over the course of decades, which can seem painfully slow to many politicians. Nevertheless, Bradshaw counseled patience, since this strategy turns out to be the best way of ensuring that the country can retain innovative enterprises and the talented people who drive them.

Panel #1: Implications for key industrial sectors

Moderator: Peter Frise, Scientific Director & CEO, Auto21
William Harney, Executive Director of Research & Development, Magna Exteriors & Interiors
Anthony Patterson, President and CEO, Virtual Marine Technology Inc.
Jim Stanish, CFO, Macadamian

People on the front lines of bringing innovative ideas to market have highly focused ideas about what government can do to help – and hinder – this work. Nevertheless, there is no single strategy to satisfy everyone at the same time. Panelists disagreed on the virtues of the SR&ED program, for example, some thinking them slow, cumbersome, or simply irrelevant to their needs, while others regard these tax credits as a lifesaver for up-and-coming firms. Nor is it necessary for Canada's research institutions to tout world-beating technical quality as their sole advantage to facilitate the success of the country's R&D goals; of greater value to the panel was the ability of these institutions to provide industry with talented people, and to be ready to act quickly on commercial opportunities as soon as they occur.

Panel #2: The financing landscape

Moderator: Jennifer Brooy, Vice President of Equity, Export Development Canada (EDC)
Lanis Anthony, Chief Entrepreneurial Officer, CCINC Group of Companies
Robert Finkel, President and Founder, Prism Capital
Charles Lax, Managing Partner, GrandBanks Capital, Boston

This panel offered an exceptionally candid portrait of Canada's place in the sometimes harsh world of venture capital investment. The two American participants were especially blunt in describing the limitations imposed by our smaller, scattered population, as well as logistical hurdles such as tax regulations or inadequate air transportation links. At the same time, both of these observers were enthusiastic about the prospects that do exist in this country, and the success they have enjoyed here. That success can be extended and enhanced, the panel observed, if Canadians would set aside many parochial and sometimes pretentious ideas about how private enterprise works, and the real benefits it brings.

Panel #3: Implications for innovation intermediaries

Moderator: Claudia Krywiak, VP Corporate Planning & Development, Ontario Centres of Excellence (OCE)
Pierre Galarneau, Vice-President & Chief Technology Officer, National Optics Institute (INO)
Ted Hewitt, Executive Vice President, SSHRC
Dan Patterson, President, Niagara College
Kevin Tuer, Managing Director, Canadian Digital Media Network

The latest federal budget reflected an ongoing emphasis on the notion that government's role is less about fostering innovation directly than in supporting the relationships between others who are better placed to act in commercial settings. These panelists represented organizations that are positioning themselves in just this way. The country's colleges, for example, are not only sought after by job-hungry students who are treating a university education as their second choice, but also by private firms that want direct solutions to technical problems they are facing. Whole sectors can flourish when the right forum is created for sharing talent and best practices, as the experience of the Canadian Digital Media Network illustrates. Moreover, this new innovation environment sets aside many longstanding perceptions of the boundaries imposed by various academic disciplines, as the success of the most sophisticated high tech products can depend on equally sophisticated social and cultural research into how people will use those products.

Closing panel: Priorities for Action

Moderator: Diana Royce, Managing Director & COO, AllerGen NCE Inc.
Jerome Le Corvec, President & CEO, Aonix Advanced Materials Corp
Grant McVicar, CEO, Innoventures Canada (I-CAN)

A wrap-up of the themes covered in the conference brought a wide array of comments and questions from the audience. Some were highly specific complaints, such as the observation that the definition of R&D to qualify for SR&ED tax credits is decades out of date, to the more sweeping observation that Canadians must understand the need to collaborate on a common commercialization agenda even if certain favourite undertakings are not included. There was some debate over whether government should lead the innovation charge or leave that to the private sector. In fact, the conference discussion wound up with the suggestion that there were simply too many government innovation initiatives around, and no more should be introduced until we can come up with a coherent form for our government's support of the country's research system.