

February 18, 2011

Mr. Thomas Jenkins  
Chair  
Review of Federal Support to R&D  
1200-270 Albert Street  
Ottawa Ontario  
K1A 5G8

**RE: Review of Federal Support to R&D**

Dear Mr. Jenkins:

The Ontario Chamber of Commerce (OCC) is a federation of 160 local chambers of commerce and boards of trade in the Province of Ontario, representing 60,000 businesses of all sizes, in all economic sectors covering every area of the province. The OCC's mandate is to advocate strong and effective policies on issues that affect its membership throughout Ontario's business community.

With innovation fast becoming the key determinant of competitiveness in the global economy, Canada and its provincial economies are facing renewed pressure to address the country's consistently poor performance on key measures of innovation.

Canada has a strong track record with respect to several of the key pillars of innovation; it ranks high in scientific capabilities and public sector research, and provides more direct and indirect government support for Research and Development (R&D) than any other OECD country. However, as organizations such as the Task Force on Competitiveness, Prosperity, and Economic Progress, the Coalition for Action on Innovation in Canada, and the Conference Board of Canada have noted, Canada remains a below-average performer on its capacity to innovate, with our businesses consistently investing less in R&D than peer jurisdictions. The Conference Board of Canada gives Canada a 14<sup>th</sup> place ranking out of 17 peer OECD countries on innovation performance.

Canada does well with new business start-ups, but has yet to achieve the right policy mix to help high tech companies flourish at more advanced stages of growth. Although there is a need for programs that focus on early stage companies, established, capital-intensive, firms account for the bulk of innovation activity in Canada, carrying out over 60 per cent of the country's industrial R&D. In spite of its higher R&D intensity, this market segment earns only 14 percent of all revenue brought in by R&D companies, largely due to the focus of R&D incentives on early stage enterprises with little or no revenue. Ontario business owners note that it is nearly impossible to raise money for any kind of semi-capital intensive business in Canada, particularly those involved in high-risk R&D. By way of illustration, the income threshold for the Scientific Research and Experimental Development (SR&ED) Tax Credit - the single largest source of federal government support for industrial R&D - is \$500,000, which is too low for any moderately successful company to qualify. In Quebec, by contrast, the threshold is twice as high.

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A lack of commercialization financing for established companies prevents SMEs from investing in the long-term, large-scale R&D critical to scaling up, and helps to explain why so few global companies at the cutting edge of science and technology originate in Canada. Among high R&D intensity Canadian firms, there are almost no examples of enterprises that make it past the \$500 million revenue threshold. Due to the pressure to sell, many SMEs with valuable technologies opt for exit strategies over expansion.

Addressing the financing hurdle for commercial enterprises at later stages of evolution is a necessity for solving Ontario's innovation challenge, particularly because such companies have already demonstrated a strong formula for success. For companies with the highest R&D intensities, the whole model begins with customer needs - R&D is geared towards finding solutions to those needs. Small start-up firms, on the other hand, typically fail to realize successful sales, as R&D is usually based on academic, as opposed to commercially-driven, discoveries. Even when government stimulus is sustained over multiple financial cycles, many projects still end in bankruptcy or liquidation. In order to ensure its R&D investments produce the types of behaviours that give rise to a dynamic economy, the federal government must ensure that its R&D portfolio is balanced to reflect the distribution of commercially viable R&D activity.

There is also significant room for improvement in how existing resources are allocated and administered. The limited scope and complex process of applying for existing government programs are repeatedly identified by SMEs as inhibiting factors to investing in R&D. When it comes to the scope of funding programs, many initiatives have a narrow definition of which sectors and/or activities are eligible. For the most part government policy directs funding towards "strategic sectors" which tend to overlap with established industries. Sooner or later this strategy is destined to produce diminishing returns as insulated industries become outmoded and up and coming industries that were passed over by government take root in competing jurisdictions. It is systematic within our country that we're not looking at early opportunities - what's already incubating - and how to propel them forward.

Additional challenges associated with government funding are its focus on individual projects, rather than the entire work of the company, and its almost exclusive application to activities with easy-to-measure outcomes (i.e. jobs, earnings, exports). These criteria exclude many of the activities related to innovation, the vast majority of which happens via incremental improvement - which is often intangible and difficult to quantify - as opposed to large-scale breakthroughs. However, companies have also emphasized the need for resources for experimentation. Although large-scale breakthroughs happen less frequently, when they do occur, they are more often than not the result of pioneering research, which is associated with greater trial and error and longer technology cycles than what is currently allowed under conventional programs. Due to the restrictions inherent in existing programs, most SMEs find that there is insufficient flexibility in how dollars are spent to facilitate the optimal allocation of resources required for innovation.

Add to this the difficult process of accessing government funds, and a clear picture of the challenges facing Canadian businesses emerges. In order to bring new discoveries to market, businesses must navigate a system characterized by high uncertainties, delays, and costs. Many businesses cite regulatory barriers or “red tape” as a major disincentive - not only to R&D financing, but to commercializing new technologies more broadly. The irritants most frequently mentioned by businesses include:

- Lack of clarity with respect to accessing information and assistance: Many companies experience frustration due to a perceived lack of capacity within government to identify who does what, direct clients to the most appropriate individual(s), and provide concrete answers.
- Unclear relationship between the various system partners, making government programs complicated and difficult to navigate.
- Lengthy and cumbersome paperwork and processing times for approvals and permits: The SR&ED investment tax credit is the single largest source of government support for industrial research and development. However, many small companies must hire external consultants just to administer the associated paperwork - for many the cost outweighs the return.
- Lack of gateways to government services, particularly outside major urban centres: In communities without direct ties to the Networks of Excellence, there is no central hub for companies to access help with each stage of the innovation process. Information and assistance are scattered, causing many good ideas to fall through the cracks.

Due to the deficiencies of existing government funding programs, many companies do not view this form of support as a viable option. This undermines the government’s ability to support emerging companies and established firms that have the entrepreneurial talent to drive new innovations to market but lack the economies of scale and/or profit margins to take advantage of government programs.

In light of the preceding analysis, the Ontario Chamber of Commerce makes the following recommendations:

1. Align programs and services with company evolution from start-up to mature company and ensure funding and resources are available at each step of the process. Support must be available for the full range of potential clients, including small businesses, SMEs, and large domestic and multi-national companies.
2. Ensure that access to funding to drive innovation is aligned with the priorities of clients, through the provision of quality support regardless of the sector or nature of the innovation.
3. Simplify program support and expedite the funding process to ensure that government programs and services allow innovation to occur at the speed of the market. Ensure that businesses are capable of accessing information and resources no matter which part of the province they are from.

4. Establish a formal collaborative process with the provinces to eliminate inconsistencies and overlap in the deployment of R&D funding and achieve the most efficient use of limited resources.

Thank you for taking the time to review our concerns. Should you have any questions or comments, please direct your staff to contact Stuart Johnston, Vice President Policy and Government Relations, at [stuartjohnston@occ.on.ca](mailto:stuartjohnston@occ.on.ca) or 416-482-5222 ext. 232 or Kelly Pritchard, Policy Analyst, at [kellypritchard@occ.on.ca](mailto:kellypritchard@occ.on.ca) or 416-482-5222 ext. 246.

Yours sincerely,



Len Crispino  
President & CEO

cc: The Rt. Hon. Stephen Harper, Prime Minister of Canada  
The Hon. Dalton McGuinty, Premier of Ontario  
The Hon. Gary Goodyear, Minister of State (Science and Technology)  
The Hon. Tony Clement, Minister of Industry  
Michael Ignatieff, MP, Liberal Leader, Leader of the Official Opposition  
Jack Layton, MP, NDP Leader  
Gilles Duceppe, MP, Bloc Québécois Leader  
Marc Garneau, MP, Liberal Critic, Science and Technology, Industry  
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