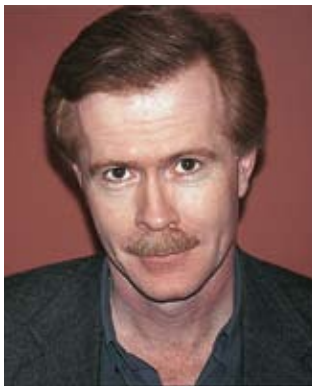


# Jenkins Report Calls for Major Shake-up in the Way Ottawa Supports Business R&D and Innovation



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**D**on't expect an expert review panel's report to transform the way in which the federal government supports corporate research and development (R&D) any time soon. Accepting the report's advice is one thing, but implementing the recommendations of the Expert Review Panel of Federal Support to Research and Development promises to be a highly complex undertaking. Any changes will take time and involve a shift

in mindsets and cultures that have proven highly resistant to change in the past.

Commissioned last year by the Conservative government, the long-awaited report's six main recommendations represent a massive rebalancing of federal support for R&D, with new programs for directly supporting business innovation to help grow innovative companies into large enterprises with global reach and muscle. Known as the Jenkins Report after panel chair Tom Jenkins, executive chair of Open Text Corp – it calls for the dismantling of the National Research Council (NRC) and reduced eligibility for federal R&D tax credit program with the savings shifted to programs that directly support business R&D.

The report also answers longstanding demands for government procurement to play a much larger role in support of business innovation, more federal funding of start-up and follow-on funding for early-stage and growing innovative firms, a ministerial champion with a mandate to position innovation as a central tenant of economic strategy, and greater collaboration

with the provinces and business leaders.

But it is the report's call for disbursing the assets of the NRC and limiting SR&ED tax credits to labour-related costs that are generating controversy.

The NRC's highly rated Industrial Research Assistance Program (IRAP) would be transferred to a major new organization – the Industrial Research and Innovation Council (IRIC) – an arm's length funding and delivery agency that is demand-

tion vouchers pilot program" would be established.

The majority of NRC institutes are engaged in business-related R&D and they would be transformed into national institutes motivated by industry needs "funded by amounts drawn against existing NRC appropriations together with revenue earned from collaborative activities" Those with a more fundamental research focus would become affiliated with one or more universities, while NRC policy functions would be transferred to relevant government departments. Institutes that do not fit into any of the above categories would be closed.

Equally contentious are the report's recommendations for changes to SR&ED – the bedrock of existing federal support for business R&D accounting for \$3.5 billion or 70% of the funding covered by the review.

"The Panel has concluded that the program should be simplified to reduce compliance and administration costs," states the report. "Moreover, the benefit should be restructured to generate savings for reallocation to other initiatives benefiting small and medium-sized firms."

Reducing the complexity of SR&ED by limiting it to labour-

related costs will reduce the amount of money firms have to spend on tax consulting firms, the report says. It acknowledges, however, that the government should consider extending the labour-based approach to all firms over time to give larger firms that incur high non-labour R&D costs a chance to adjust. At least one SR&ED tax consultant has described the recommendation as wrongheaded.

It will be up to the government to accept or reject the recommendations – which it stipulated had to be revenue neutral. It's estimated that federal R&D spending by more than 100 programs and institutes totaled \$6.44 billion in 2010-11. The panel examined 60 programs with spending of \$4.96 billion.

There's no doubt a serious re-think of federal support for R&D and innovation is long overdue. In the past decade, Canada's productivity and competitiveness rankings have plummeted in relation to competing nations like the UK, US and Germany. Despite having one of the most generous tax incentives schemes in the world, business R&D spending has lagged and a long list of promising firms supported by public dollars have been snapped up by foreign interests.

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In what is described as an “evolution”, the assets of the 95-year-old NRC would be disbursed over the next five years by transforming the individual institutes into “a constellation of large-scale, sectoral collaborative business R&D centres involving business, the university sector and the provinces”. Policy-related activities would be transferred to the “appropriate federal agencies”.

driven with clear performance metrics and a government-wide orientation. IRIC would become the common service platform for a reduced number of larger, more flexible business innovation support programs and would ultimately be responsible for developing a federal business innovation strategy. IRAP's budget would be increased and a five-year “national commercializa-