We Can't Afford to Leave Innovation Behind

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Innovate or die, a little dramatic, as it should be as Canada's economy will either flourish or wither on the decisions being made today. The manufacturing sector continues to be the biggest investor in R&D accounting for more than half the total private sector R&D spending in Canada.

The Jenkins Panel made it clear in their report three years ago, policy that encourages advancement and investment in research and development, or R&D, should be a greater priority for this country. The report also highlighted the importance of advancing a more favorable policy framework to help increase private sector R&D performance. The Independent Panel on Federal Support to Research and Development (R&D) was tasked to do a comprehensive review of federal programs that support business innovation in Canada.

The post-Jenkins federal budget however was not kind to one of the cornerstones of Canada's R&D policy, the Scientific Research & Experimental Development Tax Credit (SR&ED). The significant reductions of the Investment Tax Credit from 20% to 15%, as well as the elimination of capital spending as an eligible expenditure, are two of the more costly changes to manufacturers that were introduced in that budget. This policy hurts Canada's Business (Intramural) Expenditures in R&D or BERD.

BERD measures Canada's private sector R&D performance and is one of the indicators of R&D activity in a jurisdiction. Between 2007 and 2013 Canada saw a steady decline in BERD spending. Not only did the cuts to SR&ED not stem the decline, their implementation has actually worsened Canada's BERD, and will surely continue to do so this year and next.

Furthermore, the ratio of business expenditure R&D (BERD) as a percentage of GDP has also seen a steady decline since 1999 when it was 1.06 per cent to a new low of 0.83 per cent ratio in 2013, well below the OECD average.

To date, evidence indicates the reforms implemented by the federal government have contributed to the further deterioration of Canada's global competitiveness for attracting R&D dollar investment, particularly from large multinationals. Additionally, the federal government still needs to provide a competitive direct funding framework for business R&D spending.

The decisions made today regarding R&D investment will have a long-term effect on Canada's economy and decide whether we will be a competitive jurisdiction or keep sliding down the ranks.

The federal government still has time to adjust its policy and improve the fiscal environment for business innovation in Canada.

The government can make the difference of making both Canadian and international firms more or less attracted to invest in R&D in this country.

What can be done to make investment in R&D more attractive? First, the federal government needs to improve the fiscal incentives to perform R&D in Canada. The SR&ED program needs to be reformed so that it better reflects the needs of large corporations so that they choose Canada as a destination for R&D activities. For instance, large corporations should be allowed to cash their unused tax credits so that they can keep investing in R&D, deficits not withstanding.

The government should also reconsider its unwise decision to eliminate capital spending as eligible expenditures under the SR&ED program. At a recent roundtable discussion on the adoption of 3D printing technologies among manufacturers, one of Canada's leading distributors of 3D printing equipment stated that this particular measure significantly impacts the ability of companies to buy 3D printers and other related equipment, which impedes growth in Canada.

Second, the federal government needs to fulfill its promise to provide additional direct funding to support business innovation. The federal government hasn't fulfilled its promise in this area, the government's direct funding to private sector R&D accounts for only 0.04% of all business expenditures in R&D, ranking 23rd out of 34 OECD countries. Obviously, the cuts to the SR&ED tax credit have not been offset by huge increases to direct funding for business R&D.

Third, the government must start placing more emphasis on disruptive technologies that are changing how manufacturing is done in the industrialized world. New emerging technologies such as additive manufacturing, 3D printing, automation, robotics, the Internet of things, and smart materials are all examples of exciting new technologies where dedicated public policies would help accelerate their adoption and development.

Without these three conditions, and making innovation a priority there won't be a magic bullet solution to Canada's poor R&D performance any time soon.

Once these conditions are met, companies will be encouraged to take the risk to invest in R&D in Canada. Canadians have the ability and entrepreneurial spirit to be even greater innovators.