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Submission to: Government of Canada
Review of Federal Support to R&D

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Introduction:

LifeSciences BC (LSBC) is an industry association representing a myriad of organizations that offer products and services related to the biopharmaceutical, medical device, bioproducts, and/or biofuels sectors. Our constituency is comprised of approximately 250 entities that employ more than 9,500 individuals and contribute an estimated \$630 million annually to the provincial economy. Members are diverse and include many SMEs as well as multinational pharmaceutical companies. Although government agencies are not members per se, it should be stressed that LSBC works closely with various Provincial Ministries, including the Ministry of Health Services which accounts for about 45% of the Province's entire budget.

Our perspective on Business Expenditures Related to Research and Development (BERD) is extensive and somewhat unique given the diversity of our membership and the nature of our interactions with regulators and policy makers alike. As a result, LSBC did participate in the creation of the British Columbia Provincial Government's submission to the Federal R&D Panel and as such, supports the recommendations included in it. However, we would also like to submit the following abbreviated comments related to BERD for the Expert Panel's consideration.

Recommendations/Considerations

- Admittedly somewhat beyond the scope of the panel, an innovation strategy must be both comprehensive and integrated in its structure. Historically, Canada (and many other jurisdictions) has attempted to resolve shortcomings related to innovation through specific programs that fail to recognize the fact that it must transcend a single ministry or department. A successful strategy should factor in education at all levels, immigration policy, intellectual property protection, tax structure, international trade position and so forth. Modifying a program such as SRED or IRAP ignores the complexity of the innovation agenda and the interaction of its various components. One 'size' simply does not fit all!
- LSBC believes that any innovation strategy must be predicated upon inherent and strategic areas of strength that are resident within Canada. There are some political consequences to such action; however,

it is imperative to realize that Canada can not effectively compete across every area of the innovation spectrum. Furthermore, it is not a question of developing a knowledge-based economy at the expense of the resource-based segment, but rather ensuring that innovation becomes embedded in every segment of our economy including the health sector which is largely in the public sector domain.

- Many organizations considering where best to achieve a return on their BERD examine the international landscape. There is no question that such expenditures are highly mobile irrespective of whether it is a SME in need of programming code or a multinational in need of clinical research services. As alluded to above, programs such as SRED (or IRAP) are generally viewed as positive but are not necessarily a critical factor in the decision as to where a company should place its BERD, particularly as emerging markets become more attractive.
- In reference to the point above, our constituents place critical importance upon intellectual property protection (IPP). There is a strong correlation between effective IPP and BERD, particularly when one considers that many of the multinational pharmaceutical companies do not or can not benefit from such programs as SRED. If Europe does elect to enhance its IPP framework as currently being discussed, there is no question Canada will be at a further disadvantage.
- Extensive commentary related to SRED has been provided in other submissions, and thus, LSBC would simply highlight the following:
 - The conditions related to Canadian controlled and publicly traded companies are restrictive and often counterproductive given the current state of the capital markets.
 - Although SRED may well be employed by eligible SMEs to augment their revenue stream, it becomes more of a tax planning issue for larger entities who have established revenues and/or can internally support a research initiative.
 - The ability to include some capital expenditures within a SRED claim if structured appropriately is beneficial but seemingly poorly understood.
 - There is an entire market segment of contractors dedicated to assisting innovative organizations with their claims which suggests the requirements around the program are too onerous. It is clear that the benefits of the program do not accrue solely to the applicant.
- Notwithstanding some of the IRAP benefits, there is not one federal program that addresses some of the capital constraints currently experienced by SMEs given the state of the market. Not only should this review look at changing the ratio between direct and indirect support, but it should also consider innovative mechanisms for raising early-stage capital such as flow through shares used in the resource sector.
- Given that 95% of BC-based life sciences companies are SMEs, it is recommended that the Federal Government develop a national, coordinated small business program not unlike that of the Small Business Administration program in the United States. Elements that are key to such an initiative would include:

- The Small Business Research Funding Opportunities (SBIR) and the Small Business Technology Transfer (SBTTR) programs are rightly and often viewed as programs that encourage SME innovation; however, it is our understanding that some of the Small Business set asides are also deemed beneficial. [In such cases, federal or state procurement agencies ‘set aside’ certain contracts for qualifying companies thereby allowing innovation to actually be put in the field and/or generate revenue while developing other products/services]. See http://grants.nih.gov/grants/funding/sbirsttr_programs.htm
- As with SBTTR, a linkage between a qualifying organization and an academic facility should be a requirement to funding in certain situations. Collaboration of this form should be a hallmark of any program directed at SMEs.
- One of the difficulties encountered by SMEs revolves around access to international markets. It has been LSBC’s observation that there are numerous country to country initiatives that seek to enhance trade between Canada and its trading partners. In some cases, consideration should be given to establishing joint pools of capital or funds that can be accessed by SMEs. Such an approach is often used insofar as academic collaboration on an international level; however, there seems to be no vehicle that can be accessed by SMEs for such purposes.
- The unsolicited proposal (UP) concept of the 1980’s encouraged innovative thought and provided a means of potential support even if all other avenues had been exhausted. The UP program could play an integral role in a national innovation strategy and its re-introduction is strongly encouraged.

Conclusion

Fundamentally, innovation drives productivity which in turn leads to a sustainable economy. We must therefore as a nation, prioritize such innovation in a comprehensive, cohesive and collaborative fashion – ensuring that we collectively undertake the development and execution of an Innovation Strategy that transcends industries (both knowledge- and resource-based) as well as individual public and private sector organizations and/or departments.

On behalf of the Life Sciences industry in British Columbia, we applaud the Federal Government for undertaking this review and working to improve the research and development climate in which our companies operate, and for recognizing the role innovation must play in the future of Canada’s economy. We look forward to providing additional input and collaborating with the Federal Government further as work towards this common goal.

Respectfully submitted,



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