

# ITAC

INFORMATION TECHNOLOGY  
ASSOCIATION OF CANADA

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ASSOCIATION CANADIENNE  
DE LA TECHNOLOGIE DE L'INFORMATION

## Building a Digital Economy In a Climate of Restraint

ITAC Pre-Budget Submission 2011



The Information Technology Association of Canada (ITAC) is the voice of the Canadian information and communications technologies (ICT) industry. ITAC represents a diverse ICT community spanning telecommunications and internet services, ICT consulting services, hardware, microelectronics, software and electronic content. ITAC's community of companies accounts for more than 70 per cent of the 572,700 jobs, \$155.3-billion in revenue, \$6.2-billion in R&D investment, \$30.4-billion in exports and \$11-billion in capital expenditures that the ICT industry contributes annually to the Canadian economy. The ICT sector currently represents 4.9 per cent of Canada's gross domestic product (GDP) and accounted for 9.4 per cent of all real GDP growth since 2002. ITAC is a prominent advocate for the expansion of Canada's innovative capacity and for stronger productivity across all sectors through the strategic use of technology.

As the world economic crisis widens and threatens to deepen even further, the greatest asset that Canada possesses in relation to the other nations with whom it competes is its strong reputation for prudent fiscal management. Prudent fiscal management requires tri-focal vision that encompasses past circumstances and present political geopolitical realities as well as a focus on a shared vision of the future. It is this focus that is required as the Government fosters a solid and credible economy while building a future that embraces the digital nature of 21<sup>st</sup> century life. This is no simple task. ITAC recognizes that the need for prudent spending combined with our commitment to build one of the most competitive tax regimes in the world leaves very little room for investment and even less room for error. We continue to maintain that we must invest wisely in the following areas to ensure our current relative stability can provide leverage for true prosperity in the very near future.

## Overcoming Under-investment in Information and Communications Technologies

Improving Canada's use of productivity enhancing technology is a pre-eminent priority for ITAC and it is a central priority for Canada's Digital Economy Strategy. ITAC has maintained that closing the ICT investment gap between Canada and the United States must be a key objective of our Digital Economy Strategy. Current analysis by the Centre for the Study of Living Standards shows that the gap in investment in ICT per worker comparable between the two countries actually widened in 2010 to 62.8% from 59.5% the previous year.

A climate of fiscal restraint requires us to ensure that our investments to close the ICT adoption gap are effective. To do so, policy makers must assess the impact of Capital Cost Allowance acceleration. If the assessment reveals that this course will not produce the outcome we need, Canada will have to consider other instruments or move to a combination of direct and indirect inducements to invest in ICTs. These may include voucher programs which appear to be achieving results in some EU jurisdictions. They should also include relatively more modest investments in long range sustained government communications plans to change current business behaviour. One way or another, public policy makers, who by now clearly understand the linkage between ICT under-adoption and lagging productivity, must be prepared to invest in solutions to close the investment gap.

Apart from the design of effective public policy instruments to encourage innovation and technology adoption, government also plays a vital role as model user in encouraging new attitudes and approaches to technology-driven business and service delivery models. ITAC believes that our governments should plan to aggressively use advanced digital technologies, such as cloud computing, and to implement process changes that digital technologies can enable. This will require significant investment – investment that will deliver cost savings in return.

ITAC supports the recent creation of Shared Services Canada, as a step toward streamlining the Government's acquisition of ICT products and services, and making this spending as efficient as possible. In so doing, however, it will be crucial that the Government focuses on buying “outcomes” rather than “inputs” in its procurement practices. Such an emphasis on “solutions-based” procurements will allow Canada's ICT industry to continue to innovate to their utmost capacity and provide the Canadian Government with technologies capability of competing – and leading in many cases – on a global scale.

#### Building a World Class Infrastructure

Recent data has confirmed that Canadians are among the heaviest internet users in the world. For instance, a March 8, 2011 *Globe and Mail* article stated that the average Canadian spends 43.5 hours on the internet each month, nearly twice the worldwide average of 23.1 hours. Canadians also rank first in the number of pages viewed.

Broadband is a key to future prosperity and a basic component of all digital economy strategies. ITAC outlined its view in its response to the Digital Economy consultation document that we should set a broadband infrastructure goal for Canada that provides a specific quality of online experience that will apply to all Canadians in all parts of the country – particularly those in rural and remote areas and on the fringes of our cities. As we pointed out in our pre-budget submission last year, ITAC believes that the significant revenue infusions from upcoming spectrum auctions are a logical resource to deploy to fund the Digital Economy Strategy. And ITAC continues to believe that massive government investment in broadband is not necessary to achieve our goals.

The CRTC's recent decision about Canada's broadband goals is very consistent with ITAC's views. And we see carriers investing in new technology and announcing service proposals that mean we are likely to reach our objectives earlier than expected. These are positive developments.

ITAC would like to commend the Federal Government for taking such steps as freezing spectrum rates in an attempt to foster an optimally healthy broadband environment in Canada. It is clear this is a priority for government, and ITAC is committed to working together with Government toward this end. We encourage Government to continue working toward freeing up as much spectrum as possible in order to achieve this goal.

### Growing the Information and Communications Technology Industry

A key aspiration of the Digital Economy Strategy and much of our recent public policy discourse focuses on the imperative to build more knowledge-based businesses. We continue to actively discuss the role of innovation in the knowledge economy, but, as a nation, we seem to have difficulty coming to grips with how we measure success in this area. ITAC's views are informed by the many knowledge-based entrepreneurs who are active in our community. For example, we concur with ITAC past-chair Adam Chowaniec:

... we create a lot of companies but we lose a lot. Some just don't make it, but we also lose a lot to acquisition well before they can fully contribute to the economy. Why is this and what can we do about it? I think there are two aspects of the conundrum: access to risk capital and a better understanding of the business model that leads to success.

(Speech to Polytechnics Showcase on Research and Innovation, December 2010)

Canada's venture capital climate has languished through a historic downturn. Each year that passes without meaningful remedy reduces our chances of building the next global leader in software, biotechnology or wireless. ITAC has promoted the idea that one way to increase the volume of retail capital flowing to the knowledge-based sector is flow through shares. ITAC explored this idea in its Digital Economy Strategy submission and notes that it is an idea gaining strong currency in other research and development intensive sectors.

Another source of funding crucial to the formation of ICT companies are fourth pillar and start-up assistance programs, such as Precarn and IRAP. These two programs in particular are frequently cited by the members of our community as delivering crucial financial and consultative support. Effective programs, such as these, must be protected from the current cost cutting impulse.

The value of SR&ED credits to the formation of knowledge intensive companies cannot be overstated. Our views on how to make SR&ED more accessible and a stronger incentive for business investment in R&D are articulated in previous pre-budget submissions. We believe it is important that the percentage of SR&ED performers who can benefit from the incentives be increased. We propose doing this by allowing companies to choose between a refundable wage credit similar to that available in Quebec today, and the non-refundable SR&ED credit that now exists. This would focus the refundable credit on companies with significant R&D workforces in Canada, helping to keep and grow their R&D centres here. We also believe that CRA must administer the program in as clear and consistent a manner as possible, in line with the nature of an R&D tax incentive.

In sum, to fulfill ITAC's vision of a competitive Digital Economy Strategy for Canada, the following fiscal measures are necessary:

1. Investment in the appropriate tax, direct incentive and communications initiatives necessary to close the information and communications technology investment gap between Canada and its trade competitors, such as the United States.
2. Strategic investments that will not only replace the Government of Canada's aging ICT infrastructure and overcome impending demographic challenges, but also return Canada to leadership in e-government.
3. Reform of SR&ED to improve accessibility and to expand the range of SR&ED eligible activities.