

Written Submission for the Pre-Budget Consultations in Advance of the Upcoming Federal Budget

The Council of Canadian Innovators (CCI)

Standing Committee on Finance (FINA)

August 3, 2023

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Budget 2024 Recommendations

- **Recommendation #1: Unleash Economic Growth by Enhancing Marketplace Frameworks**
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 - Create Strong Intellectual Property and Data Commercialization Frameworks in Canada
 - Implement an Economic Spillover Lens to Foreign Direct Investment Policy
 - Implement Open Banking with an Independent Governance Structure
 - Develop a National Semiconductor Strategy
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 - Review and Update Capital Programs to Streamline Access for Businesses
 - Deepen and Improve Capital Pools

Mr. Peter Fonseca
Chair, Standing Committee on Finance
House of Commons

Chair and Members of the Standing Committee on Finance,

As we approach Budget 2024, the Council of Canadian Innovators recognizes that Canada's economy faces real challenges. Despite our strengths, slowing productivity growth is a threat to Canadian prosperity and our standard of living. Likewise, shifting geopolitical tensions underscore the need to take security in the digital world much more seriously. There has never been a greater need for a strong, stable, domestic technology industry that can create long-term economic growth.

Major partners like the United States and the EU recognize the scope of these challenges and are adopting targeted policies to make their economies more resilient and prosperous. Canada must develop and implement smart industrial strategy that builds wealth and resilience, in coordination with the provinces and territories.

By investing in a coordinated policy framework centred around access to capital, customers, and talent, as well as strengthening marketplace frameworks for innovative companies, Canada can effectively tackle these challenges head-on and build a robust innovation ecosystem that benefits all Canadians.

A smart industrial strategy begins with recognizing that in a globalized knowledge- and data-driven economy, companies compete on realizing the value of intangible assets like intellectual property, rather than raw materials. Canada must ensure that our most innovative companies can scale and compete, catalyzing a flywheel of reinvestment and business knowhow that will build wealth and serve as a solid foundation for a more competitive Canadian economy.

As an organization that represents and works with over 150 of Canada's fastest-growing technology companies, we stand ready to support the government's efforts. Our members are the CEOs and top senior executives behind some of Canada's most successful scale-up companies. Our members are job- and wealth creators, investors, philanthropists, and experts in their fields of healthtech, cleantech, fintech, cybersecurity and ICT and companies in our portfolio are market leaders that commercialize their technologies in over 190 countries.

Nick Schiavo,
Director of Federal Affairs

Recommendation #1: Unleash Economic Growth by Enhancing Marketplace Frameworks

A) Develop an Artificial Intelligence Commercialization and Intellectual Property Strategy

Despite the launch of the *Pan-Canadian Artificial Intelligence Strategy* in 2017, government efforts have done little to support domestic firms and spur IP commercialization. This oversight has contributed to an exodus of talent and patents to other jurisdictions, further disadvantaging the Canadian industry. Out of 232 patents granted to AI experts through funding from the Strategy, only 18 are assigned to Canadian companies. 75% of the remaining patents belong to foreign companies.

With Parliament considering the *Artificial Intelligence and Data Act (AIDA)* to regulate the industry, there is room for improvement to better position Canada for success.

CCI encourages the government to complement ongoing regulatory efforts by developing a dedicated AI commercialization and IP strategy with a clear focus on scaling domestic technology firms specialized in the development or deployment of artificial intelligence.

B) Create Strong Intellectual Property and Data Commercialization Frameworks in Canada

- I. Review Innovation Programming to Avoid Duplicating Efforts and Develop Freedom to Operate Structures to Support Domestic Small and Medium-Sized Enterprises (SMEs)

Freedom to operate (FTO) — in the form of legal rights to commercialize a product — is a precondition to increasing business expenditure on R&D (BERD) at the company level, which boosts the productivity of the economy as a whole. If a company doesn't have sufficient FTO, it can't capture the high returns from its original BERD, which is needed to support a feedback loop for future investments. Without prioritizing FTO strategies that complement a company's IP and data activities, public innovation programming will not provide the essential benefits to grow the economy.

The new Canada Innovation Corporation has a mandate that reflects the concerns and priorities of innovators about intellectual property and freedom to operate. As it readies for launch, CCI urges the government to carefully review existing innovation programming in order to avoid duplicating efforts that are already underway. The corporation must focus on prioritizing addressing the FTO issues that currently impede increased BERD by Canadian companies.

Practically, this means designing and implementing structures like patent pools or data trusts and bolstering government procurement with innovative, domestic SMEs. Collectively, this will foster stability, participation, and strong infrastructure for the firms in the data-driven economy.

II. Implement a National Patent Box Regime:

Following a [commitment in Budget 2022](#) to “consider...the suitability of adopting a patent box regime”, CCI recommends proceeding with this approach to encourage IP commercialization in Canada.

This regime will accomplish two things: incentivize Canadian companies and organizations to maintain their patents in Canada instead of offshoring to lower-tax jurisdictions and ensure that companies can maximize the value of the patents. To maximize the benefit for Canada, the tax treatment criteria of the box must be designed with Canadian-headquartered companies in mind and not become a tax treatment to lure foreign companies to Canada.

III. Renew and Expand the Mandate of the Innovation Asset Collective

Canadian innovators need strong digital policy infrastructure at the federal and provincial levels, especially in the form of intellectual property collectives that enhance Canadian companies’ freedom to operate in global markets. Canada has for decades trailed in IP ownership and was late to developing strategies for the 21st century global knowledge and data economy.

We recommend the government renew the mandate and funding of the Innovation Asset Collective and expand its mandate to include strategic and educational capacity as well as support for other sectors, such as health tech and cybersecurity, semiconductors, artificial intelligence, quantum and clean technologies.

C) Implement an Economic Spillover Lens to Foreign Direct Investment Policy

In the intangible economy, when a large multinational opens a satellite office to hire software developers or other in-demand tech workers, it has an extractive impact on the local technology companies. These negative economic repercussions must be accounted for at the outset of policy development and strategic decision making in government.

It is critical that the government devotes time and resources to study the negative spillovers of FDI in the technology sector, such as the impact multinationals have on scaling companies that are hungry for talent. Understanding these impacts will empower the government to adapt their [‘net benefit review process’](#) for foreign investment so that it is better aligned with the needs of the intangible economy.

D) Implement Open Banking with an Independent Governance Structure

Following an election commitment in 2021 to implement open banking by January 2023, Canadians still lack the security, innovation and choice they deserve in financial services.

CCI urges the government to swiftly implement open banking in 2023 and release a voluntary data mobility framework to serve as a code of conduct for industry. Following the initial implementation, in 2024, the government should implement the second phase of the Advisory Committee on Open Banking's recommendations, centred the development of an arm's-length, independent governance entity.

E) Develop a National Semiconductor Strategy

In an increasingly turbulent world, governments need to foster resilient supply chains and capacity in the technology sector to ensure economic competitiveness. This has become particularly important in the semiconductor industry where the current global supply chain is under threat from geopolitical tensions.

CCI urges the government to work with industry and provincial governments to develop a national semiconductor strategy. The ultimate goal of this strategy should be to promote entrepreneurship and capacity in strategic parts of the semiconductor value chain, supply chain resilience.

F) Convene a Federal-Provincial-Territorial Innovation Summit

From Quebec's artificial intelligence regulatory framework, to BC's new Intellectual Property Strategy, to Ontario's ongoing Data Authority, across Canada, provinces and territories are leading with smart innovation policy. Unfortunately, a patchwork of regulation and policies creates challenges for Canadian firms looking to expand to other regions.

To ensure regulatory harmony and identify common goals, we recommend the federal government develop an innovation summit alongside the provinces and territories to build on existing work, harmonize objectives and share best practices to unite Canada's innovation economy.

Recommendation #2: Increase the Global Competitiveness of Canadian Businesses by Expanding Access to Customers

A) Develop a Procurement Strategy for Domestic Small and Medium-Sized Enterprises (SMEs)

Procurement is the most powerful economic development tool available to the government. If used strategically, it can not only fulfill public sector needs with unique solutions, but also stimulate key domestic sectors and help Canada achieve sustained economic growth. When a Canadian SME retains the federal government as a purchaser of their goods or services, it is considered a major validator for the company – one that helps recruit investors and accelerates future sales with other governments around the world.

For Canada to better leverage the capacities within the country, we need a federal procurement strategy that shelters decision-makers from downside risk, allowing them to pursue innovative technologies with enormous upside potential. We also need to see increased vendor engagement opportunities and education for domestic firms. The strategy should consider the following recommendations:

I. Launch an Innovative Procurement Fund (IPF)

We recommend that the federal government develop a procurement fund dedicated to technology that can be utilized by specific departments in need of timely, innovative solutions. To counteract risk aversion and facilitate iterative product development, we recommend that this proposed IPF identify key sectors for procurement projects (i.e., energy, health, cleantech and cybersecurity), prioritize internal capacity and technological understanding for program operators, deploy financial and behavioural incentives to overcome risk aversion in public procurement, and institute a streamlined application process that is iterative, co-developed, and fast.

II. Launch a Procurement Concierge Service

To date, our members have noted that Innovative Solutions Canada (ISC) and Procurement Assistance Canada (PAC) are ineffective in engaging and guiding domestic firms through the procurement process, dissuading innovators from pursuing procurement opportunities because of the time, energy and human capital required to navigate them. To fill these gaps, we recommend that the federal government implement a Procurement Concierge Program to be delivered by either ISC or PAC. The program should be modeled after [British Columbia's Concierge Program](#).

Recommendation #3: Increase Return on Investment by Streamlining Access to Capital

A) Review and Update Capital Programs to Streamline Access for Businesses

In Budget 2024, government should commit to a review of capital programs for innovators, including the Strategic Innovation Fund and Regional Development Agencies. If approached strategically, these programs can play a bigger role in generating sustained economic returns for Canada and avoid the loss of innovative businesses.

Capital programs should emphasize grants over loans, increase funding thresholds, enhance flexibility with repayment, allow for R&D investments that meet the realities of digital industries, mandate strategic IP plans from recipients and target emerging technologies or innovations.

B) Deepen and Improve Capital Pools

Innovative Canadian companies face a major barrier to growth compared to their American competitors – much scarcer venture and investment capital. As companies grow, they often are

forced to look to American capital markets for investment or go public at an earlier stage than would be otherwise optimal.

The government should explore ways to maintain healthy Canadian capital markets, including by analyzing practices in other jurisdictions such as equity crowdfunding, which would enable broader participation for Canadians while significantly deepening pools of accessible capital for entrepreneurs.