

August 3, 2018

House of Commons Standing Committee on Finance
Parliament of Canada
Ottawa, Ontario
K1A 0A9

Re: 2019 pre-budget submission consultation

On behalf of the member companies of BIOTECanada, thank you for this important opportunity to submit to the House of Commons Standing Committee on Finance the industry's perspectives and recommendations in the context of the 2019 Federal Budget consultations entitled, "***Economic Growth: Ensuring Canada's Competitiveness***".

BIOTECanada is the national trade association representing Canada's health, life sciences, industrial, agricultural and environmental biotechnology sectors. The 230 member companies of BIOTECanada are reflective of the broad and diverse Canadian biotech ecosystem which stretches across the country and includes: world-class universities and research institutes; SME's; entrepreneurs; and, large multinational players all of which are supported by a highly skilled and educated workforce. All told, the Canadian biotech ecosystem is an economic strength that positions Canada well to successfully compete in the emerging global bio-economy.

Over recent years the Canadian biotech sector has experienced significant progress as evidenced by the growth in both the number and size of companies across the country. This trend indicates the industry broadly is going through a positive growth phase as more companies secure investment capital and advance their science and innovations forward.

Leveraging an established expertise for entrepreneurship and commercialization of biotechnology innovation in Canada, the health, environmental, agriculture and industrial biotechnology sectors have capitalized on the rapidly growing global demand for the solutions biotechnology provides to address the challenges of feeding and caring for a growing population and climate change. There is a significant economic opportunity for Canada's biotechnology sector in developing innovation that will support the competitiveness of Canadian businesses in healthcare, mining, forestry, manufacturing, and agriculture in a global bio-economy. Recognizing the challenges in growing the bio-economy in Canada, the industry welcomed the government's continued commitment to the development of the federal Innovation Agenda and the specific priorities identified as part of the 2018 budget as they both reflect a common goal, namely: building on Canadian innovation to create globally competitive, Canadian companies which will support high value jobs and drive additional innovation.

Recent government initiatives such as the 2018 federal budget commitment to invest nearly a billion dollars to support science and research will significantly enhance Canada's ability to innovate. This growth and a positive investment climate have been very for the industry. Maintaining this momentum and building on the success will be absolutely critical over the period ahead.

The 2019 federal Budget therefore represents an important and timely opportunity to build on these initiatives and identify the areas where government and the industry can continue to work together to attract investment, increase Canada's leadership role, diversify its economy and be more competitive. Importantly for Canada's biotechnology industry, government policy plays a central role in establishing the necessary hosting conditions that help attract the investment and talent required to drive biotechnology research and development. As such, in the context of the 2019 Federal Budget, the industry recommends a number of over-arching objectives

that will support the growth and increase the competitiveness of Canada's biotechnology sector particularly around taxation measures to promote innovation.

Enhancing Canada's Biotechnology Innovation Competitiveness

A positive investment climate is critical to maintaining this momentum over the period ahead into 2019 and beyond. Through public policy and strategic budget measures, governments play a central role in establishing the hosting conditions to attract investment and drive innovation. The measures proposed in this submission will enhance Canada's productivity and competitiveness, attract investment and talent all towards increasing the number of Canadian biotech companies and ultimately establishing several globally competitive Canadian 'anchor' companies.

Importantly, the Business Development Bank of Canada began deploying in 2018 the \$400 million for the Venture Capital Catalyst Initiative that will increase late-stage venture capital available to Canadian companies. In addition, the government's investment of \$950 million over five years in support of business-led innovation superclusters will further accelerate economic growth. Combined, these measures will improve Canada's competitive position as a destination for investment capital.

In the spring of 2018, the department of Innovation, Science and Economic Development (ISED) established six Economic Strategy tables which will identify initiatives to improve the competitiveness of six priority sectors, including health/biosciences. The health/biosciences table has been actively working since the early spring and has focused its work on four core areas two of which are talent and investment. The Table's report to the ISED Minister in September 2018 will include recommendations as to how the government and industry can work to improve Canada's competitive position in the global biosciences and life sciences space.

Recommendation #1

The Finance Committee review the Economic Strategy Table report with the objective of identifying recommendations for action which can be supported by federal budget initiatives and measures (2019 and beyond).

Establish Canadian Biotechnology Anchor Companies

Biotechnology discovery and commercialization is characterized by long timelines, significant cost and high scientific risk. Despite the challenges of commercialization, there are presently a number of Canadian-based biotech companies that are poised to become globally competitive commercial entities. If successful, these companies will become Canadian 'anchor' companies which will serve to enhance the overall competitiveness of the Canadian ecosystem. This should be a critical objective for government and industry alike over the immediate period ahead.

Canadian biotech stars such as Zymeworks and StemCell (Vancouver) and Clementia, Theratechnologies and Caprion (Montreal) are now poised to take the next step to becoming commercial Canadian companies. Moreover, companies such as Blue Rock Therapeutics (Toronto), Turnstone Biologics (Ottawa), Innovative Targeting Solutions (Victoria), enGene and Repare (Montreal) and others are not far behind. Importantly, Canada also has several incubator and accelerator organizations that are working nationally to identify promising innovation and bring forward the next generation of Canadian companies.

Recommendation #2

Enhancing Canadian competitiveness at all stages of development should be a key objective for government policy measures and initiatives. In particular, the government should ensure there are dedicated resources and initiatives focused on supporting the creation and growth of the next generation of Canadian biotech companies.

For all of these companies and many other companies across the country, access to top talent and investment remain paramount to successfully commercializing their innovation and staying in Canada. In this context, the importance of improving Canada's competitive position to attract investment top talent cannot be overstated. Armed with a great idea, investment dollars and the right talent, Canadian companies will become global stars. However, if the investment and talent cannot be found in or brought to Canada then there is the very real risk the companies will go to where it is available, and Canada will not benefit economically from commercializing the innovation here.

Tax policy is often one of the most important measures governments have at their disposal to enhance competitiveness vis-à-vis other jurisdictions. The use of stock options as an incentive has become an essential tool for pre-commercial companies to remain competitive in terms of attracting investment and top talent to Canada. For this reason, the industry welcomed the government's decision not to revise the tax treatment for stock options. Biotechnology innovation is inherently risky and costly especially for small medium companies that dominate the Canadian SME's. The risks of pioneering innovation are significant and the potential upside benefits must be equally commensurate. Stock option compensation is critical to achieving this risk-reward balance and supports Canadian SMEs in attracting and retaining the talent required to thrive and create additional jobs in Canada. Reducing the potential for return on the risk and investment by raising taxes will ultimately deter risk-taking and innovation while also forcing some of Canada's top talent to relocate to companies based in more competitive jurisdictions. As the government continues to examine ways to streamline and improve Canada's tax system it is important to recognize the importance of certain measures in the context of global competitiveness.

Several established government programs/measures such as: the Industrial Research Assistance Program [IRAP]; the Scientific Research and Experimental Development Tax Credit [SR&ED]; VCCI; MITACS; and, the Growing Forward programs, have proven instrumental in reducing the risks and supporting biotechnology innovation through this early stages of commercialization. Correspondingly, at a minimum the government must continue to fund these programs and recognizing their strategic importance, look to expand or enhance them wherever possible. In particular, the government should examine administrative oversight of the SR&ED program to improve its consistency and efficacy. Furthermore, the industry would strongly support an enhanced SR&ED program that recognizes the unique nature of biotech discovery, commercialization and scale-up.

Recommendation #3

Improve the administrative oversight of the SR&ED tax credit and broaden the SR&ED expense thresholds to provide greater access to the program for companies that are in the critical growth phases of commercialization.

Similarly, a number of jurisdictions have established specific tax measures to support early stage company growth by providing reduced tax rates on revenues earned from commercial activity relating to a company's intellectual property. Indeed, the United States has lowered it corporate tax rate significantly to attract and retain companies while other jurisdictions have established a 'Knowledge Development Box' (Ireland) or

'Innovation Box' (Netherlands) to support early stage company growth by providing a company with reduced tax rate on revenue earned from its intellectual property. A similar initiative would strengthen Canada's strong biotech research and development capacity and increase its competitiveness in attracting and retaining IP holdings by encouraging commercial development of the intellectual property in Canada.

Recommendation #4

The government should establish a patent box mechanism to encourage companies to keep intellectual property in Canada and earn revenue from the IP to support early stage companies establish and grow in Canada.

Develop a National Bio-economy Strategy

Despite its long history of health, environmental, industrial and agricultural biotech innovation, its regional strengths, and the recognition by all levels of government of the value biotechnology represents to the Canadian economy, Canada is unique in that it has yet to put in place a national bio-economy strategy. Most competing jurisdictions recognize the economic and social value of supporting the growth of a domestic biotechnology sector and have correspondingly developed national strategies to improve the competitiveness of their domestic industry. The United States, United Kingdom, Australia, Ireland all have comprehensive national strategies in place that support the discovery and commercialization of biotechnology. Canada must keep pace with these jurisdictions. A national strategy will build on the existing innovative industry of researchers and manufacturers in Canada to develop increased opportunities with industries and other stakeholders in partnership with other sectors.

A national strategy would also support the development of a more holistic public policy and regulatory approach that would reflect the comprehensive and interconnected nature of Canada's biotech ecosystem. For Canada to remain competitive with other jurisdictions it must move from an organic approach to public policy to one that is strategic, holistic and forward looking.

Recommendation #5

With industry, the government **develop a National Bio-economy Strategy** focused on increasing Canada's global competitiveness. As part of the National Strategy the government should include the development of a national data collection capacity to measure industry progress.

Canada has a globally recognized science and research capacity which has led to the establishment of a rich and diverse biotechnology ecosystem. The ecosystem has supported the creation and growth of several companies that are now on the cusp of commercial success. Canada should be looking to establish anchor companies and grow the next generation of companies built on Canadian research and innovation. In this context, the 2019 federal budget can play an important role in supporting the sector's efforts to attract investment and talent and ultimately become a top tier biotech innovation jurisdiction in a world in need of biotech solutions.

The industry greatly appreciates this important and timely opportunity to contribute to the 2019 Federal Budget development process and would greatly welcome and opportunity to contribute to the Committee's fall pre-Budget hearings.

Sincerely,

A handwritten signature in blue ink, appearing to read 'Andrew Casey', with a long horizontal flourish extending to the right.

Andrew Casey
President and CEO