

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

The Council of Canadian Innovators (CCI)

Budget 2023 Recommendations

1. Develop a Procurement Strategy for Domestic Small- and Medium-Sized Enterprises (SMEs)
2. Enhance Tax Structures to Drive Investment and Stimulate Economic Growth
3. Address Talent Shortages and Immigration System Shortfalls Impacting Strategic High-growth Sectors in Canada
4. Prioritize Creating Strong IP and Data Commercialization Frameworks in Canada
5. Implement an Economic Spillover Lens to Foreign Direct Investment (FDI) Policy
6. Implement an Economic Lens in the Next Phase of the National Cybersecurity Action Plan to Support the Pipeline of Cyber Commercialization, Talent and Collaboration

1. 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, technological solutions. To counteract risk aversion and facilitate iterative product development, we recommend that this proposed IPF:

- a. Identify and define key sectors for procurement projects to focus on (i.e., energy, health, cleantech and cybersecurity).
- b. Prioritize internal capacity and technological understanding for program operators with a focus on specialized and internal training, targeted recruitment, and continuous dialogue with external experts.
- c. Deploy financial and behavioural incentives to overcome risk aversion in public procurement (loans, insurance, or guarantee schemes). This includes offramps to allow for the discontinuation of funding if a project does not pass certain check points.
- d. 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. Companies have been dissuaded from procurement opportunities because of the time, energy and human capital required to navigate these poorly designed programs. Additionally, there is an information gap between suppliers in the tech space and public purchasers. Suppliers have an in-depth understanding of the goods and services they sell but may have little or no insight into how to sell to the government and the government's business challenges. Conversely, government buyers are not always aware of what is currently available in the marketplace to help, particularly in those industries with rapid change or new technological advances.

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](#) with core objectives being to:

- a. Reduce the administrative burden of RFIs or RFPs and help domestic innovators easily navigate the procurement process from start to finish.
- b. Act as an 'innovation broker' to actively funnel ideas from potential suppliers of innovative technologies to networks of potential public buyers (i.e., ministries, cities, hospitals, civil protection authorities.)
- c. Provide a pathway for unsolicited proposals from businesses that have unique, innovative, and valuable products to help the government deliver services.
- d. Connect small enterprises interested in bidding on major government projects with big enterprises. This serves a dual purpose — small companies can benefit from the support and exposure provided by larger firms, and larger companies will be able to leverage local expertise of Canada's innovation ecosystem and to create more tailored products for the government.

2. Enhance Tax Structures to Drive Investment and Stimulate Economic Growth

In Budget 2023, it is vitally important that the government introduce more competitive tax structures to encourage investment into domestic businesses and emerging sectors within Canada. If approached strategically these structures can play a key role in generating sustained economic returns for Canada and importantly avoid the loss of innovative businesses to friendlier tax jurisdictions.

i) Modernize SR&ED to Increase Innovation Outputs and Improve Economic Returns Generated from R&D

CCI was pleased that in Budget 2022 the federal government committed to a comprehensive review of the SR&ED system to ensure that it is fit for purpose in the 21st century knowledge-based and data-driven economy. To guide the review process, CCI has consulted extensively with our members, and several of Canada's top public policy and tax experts to develop a comprehensive report, [Modernizing SR&ED to Support Canada's Scale Up Companies](#) with six recommendations to reform the SR&ED program for the types of innovation outputs Canada should be striving for.

3. Address Talent Shortages and Immigration System Shortfalls Impacting Strategic High-Growth Sectors in Canada

For Canada, it is now estimated that by the end of 2025, employment in the digital economy will reach 2.26 million or roughly 11% of all employment in Canada and this growth will trigger demand for additional skilled professionals. This year, CCI released a [Talent and Skills Strategy](#) with a series of policy recommendations to address the high-skilled talent shortage in Canada. These recommendations cover four themes — coordination, attraction, generation, and retention. To advance the strategy, in Budget 2023, we would like to see the government prioritize the following initiatives:

i) Enhance support for IRCC and ESDC to eliminate backlogs, return existing immigration pathways to regular service standards, and ensure the steady flow of skilled talent to Canada.

iii) Implement a High Potential Tech Visa to increase labour density of skilled talent across Canadian communities.

iii) Accelerate funding for Canadian businesses that develop upskilling and retraining programs to enhance the domestic workforce.

4. Prioritize Creating Strong IP and Data Commercialization Frameworks in Canada

ii) Incorporate freedom to operate (FTO) Strategies within innovation programming to encourage IP generation inside Canadian companies and increase business expenditure on R&D (BERD) outputs for Canada

In Budget 2022, the government announced the creation of an Innovation and Investment Agency designed to target Canada's core innovation challenges. As this agency begins to take form, CCI urges the government to reflect on existing innovation programs and agencies and not duplicate efforts that are already established. To have any impact on Canada's domestic technology sector, the agency must be coupled with the correct frameworks and structured programming. It should, from the outset, prioritize the FTO issues that currently impede increased BERD by Canadian firms.

More specifically, FTO, in the form of legal rights to commercialize a product, is a precondition to increasing BERD at the firm level. If a company lacks sufficient FTO, it cannot capture the high returns from its original BERD which is needed to support the flywheel of future investments. Without prioritizing FTO strategies that complement a firm's IP and data activities, public innovation programming will not provide the essential benefits to grow the local economy. This is because the value from public funding is only realized when companies operate in a marketplace that enables them to effectively commercialize IP and data assets. To this end, the government must ensure the development of FTO strategies are embedded into the mandate of new programs like the Innovation and Investment Agency. Practically, this means designing and implementing structures like patent pools or data trusts and supporting 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 encourages the government to move forward with this approach as viable means to strengthen IP protection and 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 making this an attractive scenario for shareholders and investors. To realize the benefit for Canada, the tax treatment criteria of the box must be designed with Canadian headquartered companies in mind. The box must align with Canadian innovation outcomes and not become a tax treatment to lure foreign companies to offshore their patents in Canada.

5. Implement an Economic Spillover Lens to Foreign Direct Investment Policy

Canadian governments undertake a wide range of activities to promote economic growth and development. However, in many cases, these programs, policies, and strategic economic plans can have major negative consequences for the labour market and IP ownership. Governments across the country have invested heavily in creating foreign-direct-investment promotion agencies without any regard of the changing nature of FDI in knowledge-based economy. A key component of the current FDI strategies is to lure foreign tech giants and position Canada as a high-quality and a relatively low-cost talent market.

The prevailing sentiment within these agencies is that these new firms will both deliver new jobs and protect existing ones. However, 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 (i.e., talent and intangible assets). These negative economic repercussions must be accounted for 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 wage inflation and the effects this can have on smaller, 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.

6. Implement an Economic Lens in the Next Phase of the National Cybersecurity Action Plan to Support the Pipeline of Cyber Commercialization, Talent, and Collaboration

Domestic capability in cybersecurity is a key precondition for countries remaining safe and sovereign in the age of digital threats. If we are not suppliers of cybersecurity solutions, Canada is wholly reliant on external actors – vendors and countries which have no public accountability to Canadian citizens – to design the systems that protect us. As such, CCI recommends the next phase of the [National Cyber Security Strategy](#) prioritize the following action items:

- i) Develop a trusted domestic partners list of domestic cybersecurity companies with capabilities who meet high security standards relevant to the public sector, private sector and globally.

ii) Develop a dedicated cyber testing stream to validate cyber-solutions developed by trusted domestic partners, rather than on a project-by-project basis.

iii) Create a comprehensive and dynamic training program to address the severe shortage of global cybersecurity talent available.

About the Council of Canadian Innovators

The [Council of Canadian Innovators](#) represents and works with over 150 of Canada's fastest-growing technology companies. Our members are the CEOs, founders, and top senior executives behind some of Canada's most successful 'scale-up' companies. All our members are job and wealth creators, investors, philanthropists, and experts in their fields of healthtech, cleantech, fintech, cybersecurity and ICT. Companies in our portfolio are market leaders in their verticals, commercialize their technologies in over 190 countries, and generate between \$10M - \$750M in annual recurring revenue. We advocate on their behalf for government strategies and increase their access to skilled talent, strategic capital, and new customers, as well as expanded freedom to operate for their global pursuits of scale.

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