

POSITION AND REPRESENTATION

The ADRIQ responding to the Jenkins Report A positive feedback paired with a warning sign

Montreal, October 25, 2011 – The ADRIQ applauds the work performed by the government of Canada regarding the efficiency of R&D federal programs. The “Jenkins Report” called *Innovation Canada – A call for action* was issued on October 17, 2011 by a group of independent experts regarding the R&D federal support.



Alain Coulombe et Jean-Louis Legault, representing the interests of ADRIQ members, on Thursday, October 20, 2011, before the Senate Banking and Finance Committee in Ottawa.

The ADRIQ proudly acknowledges that numerous recommendations made to the Jenkins Committee (through its brief filed on February 18, 2011) as well as the representations performed before the Committee members were considered in the wording of six recommendations stated in this report.

Specifically, the ADRIQ acknowledges the following Jenkins Report recommendations that correspond directly to their recommendations made to date:

- The **recommendation #1** that is designed to create the Industrial Research and Innovation Council and that addresses the ADRIQ's concern in initiating and maintaining an open and permanent dialog between government authorities that shall legislate and manage the implementation of innovation-oriented programs.
 - The ADRIQ wishes to become a permanent member of such committee and commits to remain involved in order to fully play its role as a unique corporation with a global and modern vision of the Quebec innovation ecosystem.
- The **recommendation #2** that is designed to simplify the SME program compliance demonstration in order for them to easily benefit from related tax credit.
 - Furthermore, the ADRIQ acknowledges that it is envisaged to grant an easier and more predictable eligibility and to improve the preliminary review service, though without it becoming a new mandatory constraint towards SME. This initiated pre-approval notion matches the ADRIQ recommendations that promote a new vision for the tax credit program by applying a part of the auditing process at the very beginning, though without it to become an eligibility constraint for SME. This change shall decrease the ratio of potential abuse, improve company program predictability and work in proactive mode in comparison with the actual reactive mode.

- Major gains in efficiency shall result from this new operating mode as well as the improvement of the innovation corporate culture.
 - However, it seems that the Committee did confuse simplification with key element cutbacks. Indeed, the ADRIQ provides a **major warning alarm** regarding the tax credit refund limitation that aims only at the workforce portion.
 - It appears contradictory to improve the Canadian company productivity and to recommend the withdrawal of the main tax incentive available for corporate material expenses and innovation project investments. We believe that this shall provoke a significant investment decrease and accentuate a delay in the Canadian company productivity.
 - It must be understood that almost 50% of all the tax credit claims are not of a workforce nature.
 - So this is a negative signal to send to manufacturing companies that would be strongly disadvantaged by this change, if any.
 - The ADRIQ believes that such implementation of recommendations will more than likely generate an undesirable and destabilizing effect in the present context.
 - The manufacturing sector being at the core of the worldwide innovation development would irremediably lose a major incentive that could be harmful in a context of strong and constant competition on the global stage.
 - The effect on international manufacturing subsidiaries will be as important.
 - Note that the ADRIQ promotes the balance maintenance between direct aid measures and tax measures. These two types of measures are complementary even though they have separate goals and impacts.
 - As recommended in the brief we presented to the Committee, we shall decrease the **number** of direct aid programs in order to increase the funding envelope approved for those that succeeded, such as the **IRAP and NSERC programs**.
 - Furthermore, surplus that come from the program efficiency improvement would allow an additional increase of the direct aid amounts.
 - According to us, the tax measure envelope decrease is not a conceivable option since it seems to go against most global trends.
- The **recommendation #5** that is designed to fill the actual gaps in terms of innovative corporate financing. The BDC may definitely take a leadership role in order to deal with structural problems that affect the access to venture capital.
 - These issues are clearly identified in the brief we filed in February.

The ADRIQ acknowledges the following initiatives:

- The **recommendation #3** that is designed to make use of the Canadian government purchasing power as a significant aid lever to innovation marketing. The ADRIQ also recommended in its brief that the tax aid shall be extended to such portion of the innovation cycle.
 - **The existing CICP program** being managed by the OSME may constitute an excellent starting point to initiate such move. We recommend the Canadian government to seek inspiration in such program in order to stimulate Canadian innovation purchases from major private guarantors.

- The **recommendation #6** that is designed to improve the dialog and cohesion between provincial authorities in order to harmonise programs with efforts.
 - The ADRIQ has often addressed the negative effects of such lack of cohesion and agreement and acknowledges this new open-minded vision.
 - It becomes vital to reinforce the national/provincial leadership on a concerted basis in terms of innovation and to set clear and measurable strategic goals that would be identified on a road map in order to achieve them.
 - For example, by building provincial mobilising projects, Canada could make it a goal to become one of the five international leaders in terms of electrical energy storage systems, within the next 10 years.
 - The ADRIQ makes itself available to promote such spirit of cooperation that will allow eliminating duplications and providing a better coordination, leadership as well as effort complementarities.

The ADRIQ considers with caution:

- The **recommendation #4** that is designed to modify the NRCC constituting institute structure, even if there are such models in Quebec (including FP Innovation):
 - Debates already took place in Quebec and leaders must be aware that such changes shall be performed with a constructive vision of instruments of change and ability. The government must be aware of the risks associated to such process that shall consider the sector typical aspects in which the institutes operate and might become a significant factor of the centres' economic vulnerability, especially if those changes are performed too quickly.
 - A unique model may not be implemented without considering the aimed centres' cash flow.

In summary, we acknowledge that the innovation notion and marketing aspect play the predominant role that we did recommend.

The innovation community expects that the program process details will follow this new direction since they contrast with the actual treatment that was moving in the opposite direction, i.e. towards disruptive research.

The ADRIQ will closely watch the report's developments that should be decisive.

The ADRIQ also reiterates its **warning sign** in terms of tax support cutbacks for innovation-oriented project costs, other than the workforce costs.

In conclusion, the ADRIQ acknowledges the **Committee members' laudable efforts** in order to find improvement methods for the actual incentive programs and puts itself forward to contribute to further steps.

For more information on the ADRIQ recommendations, please refer to our brief filed before the Jenkins Committee on February 18, 2011 and available online:

[Review of federal support to SR&ED – ADRIQ Dissertation](#)



Association pour le développement de la recherche
et de l'innovation du Québec

About the ADRIQ

The ADRIQ leads a vast, unique and influential business network to support technological innovation in Quebec and to promote partnerships between decision-makers. Since 1978, it addresses and promotes the main concerns and challenges of 5,000 innovation leaders it represents in order to collect favourable factors and ideal conditions for their success.

For further information:

Caroline De Guire

Association pour le développement de la recherche et de l'innovation du Québec

Tel.: 514 337-3001, ext. 104 | Cell. phone: 514 756-8430