

# Canada's Innovation Agenda: The same old story? Or a new way forward?

by Alessandra Jenkins

On June 14, 2016 the Department of Innovation, Science and Economic Development announced public consultations for the Government of Canada's Innovation Agenda.<sup>1</sup> The consultation includes both roundtable discussions across the country and a website for public submissions. While making Canada a hub for innovation has been a cornerstone of the new government's agenda, this goal is one that must be considered in a broader context. The mandate of the Minister of Innovation, Science and Economic Development, Navdeep Bains, includes working to ensure tax structures promote business activity, support regional agencies in building competitive advantages, and support the trade minister in preparing businesses for trade agreements.<sup>2</sup> This mandate is not the first to address Canada's ability (or inability) to innovate, making the consultation process for the Innovation Agenda not just a forward-looking process, but a reflective one that must consider the successes and failures of previous innovation policies. Particularly, how our inward-looking innovation policies disregarded the significant impact of our highly integrated economy with the United States.

An effective innovation policy that bolsters Canadian productivity and understands the role of the United States as both a competitor and ally in innovation will ensure a more mutually beneficial bilateral relationship, and strengthen our regional competitiveness. An innovation agenda for Canada will only be successful if we fully acknowledge our economic interdependence on the global stage and position our economy accordingly.

## The State of Innovation Policy in Canada

The Canadian government has a history of trying to understand how to make Canada more innovative and create policies to spur new economic growth. Their traditional policy approach to innovation is to focus on three pillars: 1) developing creative talent; 2) producing high quality knowledge; and 3) encouraging an innovative private sector.<sup>3</sup> Under the Harper government, an expert panel report was commissioned in 2011 to further understand the innovation landscape and provide sound policy recommendations. Innovation Canada: A Call to Action, colloquially known as the Jenkins Report; provided six recommendations for private sector innovation: (1) create an Industrial Research and Innovation Council with a clear business mandate, (2) redeploy small and medium-size enterprise tax credits to direct support initiatives, (3) place innovation at the forefront of procurement, (4) turn the National Research Council into collaborative sectoral R&D centres that include businesses and universities, (5) help high-growth firms access risk capital and create new funds to fill in the supply gap, and (6) establish a clear federal voice for innovation and dialogue across provinces.<sup>4</sup> Five years later, the policy implications of this report are visible. The Harper government invested in early-stage risk capital and larger venture capital funds, the NRC received funding for growing innovative business, and the tax credits for SMEs were reduced.<sup>5</sup> Success has been clearest in venture capital contributions, with the Conference Board of Canada moving the grade of this indicator from a “D” in 2009 to “B” in 2013.<sup>6</sup> However, some recommendations were not executed. Most notably, An Industrial Research and Innovation Council was not launched.<sup>7</sup>

## How we perform

The Jenkins Report was at least partially successful, the question that remains is why is the Liberal government going through this process again? Experts believe the current policy approach fails to stimulate innovation driven businesses.<sup>8</sup> There are both supply and demand barriers to innovation in Canada.<sup>9</sup> Since the Jenkins Report was released, multiple reports have been produced measuring Canada’s innovation on an international scale and highlighting challenges in the Canadian context. Rankings comparing Canada with other OECD countries show Canada falling behind on multiple private sector R&D indicators,<sup>10</sup> including deficiencies in lower IT company valuations and higher foreign purchasing<sup>11</sup>, a widening gap on intensive industry exports,<sup>12</sup> and multiple firms with little or no innovation management processes in place.<sup>13</sup>

While global indicators can help us understand Canada’s successes and failures, a specific look at our innovation capacity compared to our largest trading partner, the United States, further highlights the challenges in Canada’s innovation landscape. Over the past decade, productivity of labour in Canada has consistently performed less than

80% of U.S. labour productivity.<sup>14</sup> Our ICT investment per worker is only 51% of our U.S counterparts.<sup>15</sup> Despite aforementioned successes in venture capital policy, there are still supply side challenges with venture capital, with many Canadian start-ups being sold at an early stage at low prices and subsequently being moved to the United States.<sup>16</sup> The only indicator for innovation where Canada outperformed the U.S. was Higher Education Research and Development (HERD) as percentage of GDP.<sup>17</sup> While these indicators help place Canada in a regional context, they also remind us that having an economic powerhouse as a close trading partner can make developing an impactful innovation policy challenging. Arguably, if this relationship is taken under consideration, an effective innovation policy that bolsters Canadian productivity and fosters SMEs will ensure a more mutually beneficial partnership with the United States, and strengthen our regional competitiveness as a whole.

## What's Next?

If previous Canadian innovation policy has had some successes, but we are considered a laggard compared to our international counterparts, where do we go from here? The new innovation agenda must promote market competition and create an ecosystem of both supply and demand for innovation in our economy.<sup>18</sup> There is no sustainable solution to a shortage in supply of capital without institutional investors.<sup>19</sup> Yes, the United States poses a challenge to venture capital, but continued investment should be part of policy moving forward and the government must signal that they support small and medium enterprises. Since we cannot match the sheer size of the US venture capital industry, we must try to operate more efficiently. Simplifying access to current and new funding, rather than merely increasing budgets, will help avoid capital flight to the U.S.<sup>20</sup> Another policy we can borrow from the U.S. is state-level investor credit, used by many states to support domestic innovation. Using the Innovation Agenda to promote and invest in private and public funds across the country is a way to encourage inclusive growth without dictating the results.

While increasing the supply of innovation through investment, the government must encourage demand for innovative products. This can be done by directly creating demand through government procurement as well as opening markets and communicating opportunities to foreign and domestic buyers. To ensure Canadian innovation does not stagnate in Canada (a relatively small market on the global scale), the government must also



leverage international markets that have been made easily accessible to Canadians through free trade agreements. Increasing capabilities of the Global Affairs Canada Trade Commissioner Service to help companies navigate markets and reduce barriers to entry will assist the expansion of Canadian innovation.<sup>21</sup>

## Final Recommendations

When developing an innovation policy for Canada, the current government cannot throw out the baby with the bathwater. The Jenkins Report laid a foundation for stronger business practices, more direct funding to R&D, and stronger research partnerships between business and higher education. Building from the Jenkins Report and current initiatives, the new policy should not dictate how the country should be innovative, but should provide for resources, competition, and opportunity for innovation to arise. In many ways, the innovation agenda should be a mantra imbedded across departments in order to develop a more cohesive supply and demand model for innovation in the Canadian economy. Can Canada become an innovation powerhouse with the United States as its neighbor? Not likely anytime soon, but promoting innovation in a country ripe with investment and talent will provide greater opportunity in an economy that should not solely focus on resource extraction as its predominant export.

*The views and opinions expressed in this article are solely those of the author.*

## Endnotes

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**Alessandra Jenkins** was a Summer 2016 Staff Intern for the Canada Institute. She is currently a Master of Global Affairs candidate at the University of Toronto, Munk School of Global Affairs. Prior to pursuing her degree, she earned her B.A (Hons) in Global Development from Queen's University and has worked in the international development and technology sectors in Toronto. Her current research interests are Canadian innovation policy, trade, and security.

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