

# 2010 Federal Throne Speech and Budget

## Major Significance for ICT Industry

We are all aware of the importance of the Speech from the Throne, which sets out the key priorities of a government for the coming parliamentary period, and of the Budget, which sets out Government's strategy for managing the country's finances as well as its fiscal priorities. In 2010, the Speech from the Throne of March 3 and the Budget of March 4 are exceptionally significant for the Canadian ICT industry, both in terms of major strategic thrusts as well as specific spending and other initiatives.

## Major Strategic Thrusts

### Digital Economy Strategy

Top of mind for Canada's ICT industry is the announcement in the Throne Speech, reiterated in the Budget, that the Government will be developing a Digital Economy Strategy for Canada that will:

"... enable the ICT sector to create new products and services, accelerate the adoption of digital technologies, and contribute to improved cyber security practices by industry and consumers."

This issue has been ITAC's top priority. Our industry is uniquely placed to understand that a strategy for success in the digital economy is fundamental to success of a modern economy in all sectors of activity. In effect, for a country like Canada in this day and age, there are no 'old economy' industries and 'new economy' industries – every industry is a new economy industry where competitive success and high value jobs are technology-dependent.

We raised this with the Prime Minister and Minister Clement when we brought 15 CEOs to meet with them last year. We were pleased to see that they agreed, and that they realized that a 'whole of Government' approach was needed. The commitments in the Speech from the Throne and in the Budget confirm this understanding and the will to move ahead on this basis.

In the months that followed our meeting with the Prime Minister and Minister Clement, ITAC worked with Government and participated in broad consultations to explore the elements that should form part of a Digital Economy Strategy that is appropriate to Canada's competitive advantages and challenges. In this process, it became apparent that on a number of fronts it was clear what a Digital Economy Strategy for Canada should contain, but that in other areas there would be a need for further discussion and process. While there will come a point where the Strategy has to be crystallized without having resolved all issues, ITAC is looking forward to continuing our work with Government to assist in finalizing the Strategy. That Strategy in turn can provide guidance for the approach to be taken to resolve those issues that will still remain to be addressed.

### Comprehensive Review of Federal Support for R&D

Another major process announced in the Budget is a comprehensive review of all Federal support for R&D. Under the heading "Improving Support for Innovation", Budget 2010 states at page 87:

"To ensure that federal funding is yielding maximum benefits for Canadians, the Government, in close consultation with business leaders from all sectors and our provincial partners, will conduct a comprehensive review of all federal support for R&D to improve its contribution to innovation and to economic opportunities for business. This review will inform future decisions regarding federal support for R&D. The Government is currently developing the terms of reference for the review."

This is another major area of interest for ITAC, and one where we expect to be extensively involved. As the Budget recognizes, Canada provides significant support to private sector R&D through the SR&ED tax credit program, and invests more directly in public R&D than any other G7 country. Yet, as it points out:

"Despite the high level of federal support, we continue to lag behind other advanced economies with respect to overall innovation performance, private sector investment in R&D, and the commercialization of research."

Our industry is the poster child for industrial R&D, carrying out 38% of all private sector R&D in Canada. We have identified gaps in the SR&ED program that should be addressed or supplemented by other programs if we want to achieve world-leading performance. Moreover, it is not apparent that the emphasis of Canada's public R&D spending appropriately reflects the relative importance of ICT R&D that is manifested in the commercial marketplace, or indeed in the priorities set out in the Government's Science and Technology Strategy. The comprehensive review announced in the Budget will make it possible to address such issues.

## Comprehensive Review of Government Administrative Functions

Another major process of considerable interest to the ICT industry is the comprehensive review of Government administrative functions and overhead costs announced in the Budget. It sets this out as the third plank of the Government's three-point plan to bring its Budget back to balance.

Here again ITAC will be quite interested to provide whatever assistance it can in this process. Our Federal Government, like others, is facing a combination of challenges that also represent a major opportunity: the need to reduce the cost of operating Government to help dig ourselves out of deficits; the need to operate with fewer employees as large numbers of civil servants reach retirement, without sufficient numbers of people available because of demographic changes to be able to replace them all (a phenomenon that will be prevalent in both the public and private sectors in many countries); and the 'rusting out' of major information technology systems in place for many years that are now sub-par and costing more and more to maintain. The opportunity is to use technology to address all of these challenges, while actually improving access and service for the public. It is important for the ICT industry to help in this process so best practices are implemented and best results are achieved for Canadians.

## Cyber Security Strategy

Finally, the Speech from the Throne mentions another important strategy:

"Working with provinces, territories and the private sector, our Government will implement a cyber-security strategy to protect our digital infrastructure."

This is another area of obvious interest for ITAC and one where we will be happy to contribute.

## Concrete Actions and Spending Measures

In our discussions with Government on the Digital Economy Strategy, we made it clear that business leaders in our sector want Government to take action now where we are ready, rather than await the development of a Strategy that encompasses a broad range of areas, including some where a specific action remains to be defined. Moreover, it is important for Government stimulus and other spending plans to invest now for success in the future.

We believe our Government is responding positively on both these fronts. The Government has taken action in the past months and is taking action in the Budget on a number of significant initiatives including:

- Budget 2010 reiterates the Advantage Canada strategy which seeks to create a competitive advantage in a number of key areas, including tax rates.
- Continuing with significant investments in knowledge infrastructure (post-secondary education and research; science and technology) as part of its stimulus spending - \$1.9 billion in 2010/2011, following on \$2.1 billion in 2009/2010.
- \$500 million to Canada Health Infoway to support the goal of having 50% of Canadians with an electronic health record by 2010 and to speed up the implementation of electronic medical record systems for physicians. This item had been placed on hold in the Fall of 2009 pending due diligence. As the Budget states:

“Canada Health Infoway has developed an action plan to strengthen accountability in response to the Auditor General of Canada’s Report of November 3, 2009. The Government is moving forward with the transfer of the \$500 million that was announced in Budget 2009 to Canada Health Infoway. This \$500-million investment will both enhance the safety, quality and efficiency of the health care system, and create thousands of sustainable, knowledge-based jobs throughout Canada.”

- \$135 million over two years to the National Research Council Canada’s regional innovation clusters program.
- Increasing the combined annual budgets of Canada’s research granting councils by an additional \$32 million per year, plus an additional \$8 million per year to the Indirect Costs of Research Program.
- A new Small and Medium-sized Enterprise Innovation Commercialization Program, described as:

“... a two-year pilot initiative through which federal departments and agencies will adopt and demonstrate the use of innovative prototype products and technologies developed by small and medium-sized businesses. Budget 2010 provides \$40 million over two years to support up to 20 demonstration projects. To help small and medium-sized businesses take advantage of this initiative, the Government will organize regional trade shows so that companies can showcase their innovative concepts to federal departments. Further details regarding this initiative will be announced later in the Spring of 2010.”

ITAC had proposed such an initiative to address a long-standing need identified by members, particularly SMEs. SMEs want to be able to have Government try out their innovations and then serve as a key reference customer, but ITAC had identified that, for a variety of reasons, the need for fair, open and transparent procurement processes is a barrier to this. An instrument that takes the form of support for innovation is best suited to achieve this rather than a procurement instrument. This is precisely what the SME Innovation Commercialization Program does.

- Access to Capital: over the past year, the Federal Government has provided considerable funding to BDC and EDC, as well as \$200 million in new funding to IRAP, to address the

need for capital of various types of businesses, notably for technology enterprises. While there will be a need for continued funding of these programs, and while these funds work their way through the system, the Budget announced that the Government is addressing one barrier to access to capital that has been particularly harmful to technology firms. The Budget announced that the requirements under Section 116 of the Income Tax Act, which had been a barrier to venture capital investments for non-residents, would be modified so that investments in shares of firms like those in our industry would no longer be subject to these requirements. This is something that ITAC and others had been advocating and that our industry will be happy to see implemented.

- Removal of existing restrictions on foreign ownership of satellites. The Budget points out:  
“This will allow firms to access foreign capital and know-how and to invest in new and advanced technologies. The removal of restrictions will also allow Canadian firms to develop strategic global relationships that will enable them to participate fully in foreign markets.”
- A number of technology initiatives that will be of interest to our industry ranging from border security to biometric passports to air cargo safety.
- Finally, the Budget states that a private sector Advisory Committee on Small Business and Entrepreneurship will be created to provide advice on improving business access to Federal programs and information, as well as various efforts to reduce the paper burden, including the use of online notices. ITAC has repeatedly heard from its SME members that SMEs face a huge burden in dealing with Government and that automation of these transactions is critically needed. We look forward to collaborating with Government in the identification and implementation of such measures.

## Conclusion

As the above indicates, the combination of the 2010 Speech from the Throne and Budget is of unprecedented importance to Canada's ICT industry, and indeed to Canada's future competitiveness and prosperity. ITAC is looking forward to working with Government to help realize the promise of these commitments.