

Introduction: Clean Technology and Innovation Beneficiaries of the 2013 Budget

The federal government decided to wait another year before setting the course for an integrated approach for Canadian clean technology, thus further delaying the potential for Canada to move from 1 percent of a \$1 trillion global markets to 2 percent of a \$3 trillion market and a \$60 billion innovation-based export-focused industry in 10 years time¹.

The government did, however, place markers that suggest its openness to continuing development on policies and programs for the sector. Most significantly, it committed \$13 million to SDTC over the next two years as part of a larger envelope of \$325 million over 8 years. In keeping with its message of fiscal prudence, the government delayed major refunding of SDTC to after the planned return to fiscal balance in 2015.

Secondly, the recommendation made by the *Canadian Clean Technology Coalition* during the consultations for the Jenkins Report in 2011 were supported through funding of \$20 million over two years to the Canada Revenue Agency to improve the predictability and enhance enforcement of the Scientific Research and Experimental Development tax incentive program, and \$5 million to improve service to first time SR&ED claimants. In addition the clean technology industry will benefit from accelerated capital cost reductions for clean energy generation equipment and other equipment for waste conversion to energy.

More generally, there were a number of initiatives budgeted to support the incubation of innovation-based companies. These included \$20 million over three years to help small and medium-sized enterprises access research and business development services at universities, colleges and other non-profit research institutions of their choice, and \$60 million over five years to help outstanding and high-potential incubator and accelerator organizations expand their services to entrepreneurs.

At the strategic level, the 2013 Budget leaves no doubt about the government's commitment to support Canadians inventing new technologies and incubating new companies to commercialize them. This is demonstrated through the programs above and through the significant investments for renewing venture capital in Canada.

From these investments we conclude that the government believes in and supports Canada's ability to innovate and commercialize technology. The problem in our humble opinion lies elsewhere.

Simply put, Canada's ability to innovate, incubate companies and commercialize technology *outstrips our ability to integrate these companies and technologies into our economy*, and particularly into our established sectors which for good reasons are risk averse and bound by tiered supply structures. Canada is not alone in this regard. The US and other advanced economies face the same challenge.

At this point in time, clean technology companies are thriving despite the rise of the Canadian dollar, the challenges of competing in global supply/distribution chains and the concentration of very large Canadian companies in automotive, aerospace, finance and extractive industries. Counter-intuitively, the dispersed and SME-driven Canadian clean technology industry is growing, hiring, exporting, attracting investment and innovating within a global environment. They are part of a few thousand SMEs who in 2007 (before the Global Financial Crisis in 2008) contributed \$80 billion to Canadian

exportsⁱⁱ. These companies play a vital ‘ballast’ role for Canada, particularly in an era of commodity volatility and globalization.

But past experience has shown us that non-resource based Canadian companies will weaken unless we work together to **bind** these companies’ innovations into our domestic economy through core *economic* policies that will safeguard our unstinting past and present investments in *innovation*. If we do not, our companies will be sold before they grow into drivers of prosperity and productivity. Ironically this is at least partly because they are so engaged international markets. We have seen this before in innovation-based sectors such as biotechnology, telecommunications and satellite technology.

The Government has shown its willingness to lead with new programs such as the *Canada Job Grant*. It has also demonstrated its understanding of the need for an integrated approach to the development of Canada’s defence and aerospace industry through procurement. Similar leadership will be needed to move from *invention, incubation and commercialization* to *jobs, growth, exports and economic impact* from innovation-based, export-focused companies such as those that make up Canada’s clean technology industry.

It is true that for investors, companies and policy makers, a dispersed, diverse, innovation and export-based SME-driven industry such as clean technology growing within a restructuring global market is entirely new ground.

The good news is that are many avenues through which the federal government can **bind** Canada’s *innovation-based clean technology companies* into Canada’s economy. These include energy, the North, long term climate finance, competition, infrastructure for large municipalities and for and remote communities both at home and where Canadian companies are operating.

Regards,

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ⁱ *Analytica Advisors, 2013 Canadian Clean Technology Industry Report (Ottawa 2012)*

ⁱⁱ *Source Statistics Canada, Analysis Chief Economist of the Department of Foreign Affairs and International Trade*



Clean Technology and Innovation Beneficiaries of the 2013 Budget

The Government of Canada released its 2013 Budget on Thursday, March 21st. In a moderate budget, clean technology was identified as a key manufacturing sector, along with defence, aerospace, automotive ship building and forestry, while further funding was allocated to promote commercialization of innovations.

Despite the relatively modest \$13 million funding for the next two years, the total \$325 million recapitalization of SDTC over the next eight years bodes well for the future of clean technologies and brings assurance of continued support for the industry. Other highlights related to the Canadian clean technology sector and innovation included:

- \$121 million over two years to invest in the strategic focus of the National Research Council to help the growth of innovative businesses in Canada
- \$20 million over three years to help small and medium-sized enterprises access research and business development services at universities, colleges and other non-profit research institutions of their choice
- \$20 million over two years to the Canada Revenue Agency to improve the predictability and enhance enforcement of the Scientific Research and Experimental Development tax incentive program

The government provided details on the Venture Capital Action plan which was announced in Budget 2012. The \$400 million venture capital funding was allocated as follows:

- \$250 million to establish new, large private sector-led national funds of funds (a funds of funds portfolio consists of investments in several venture capital funds) in partnership with institutional and corporate strategic investors, as well as interested provinces.
- Up to \$100 million to recapitalize existing large private sector-led funds of funds, in partnership with willing provinces.
- An aggregate investment of up to \$50 million in three to five existing high-performing venture capital funds in Canada.

In addition, in order to promote innovation hubs and commercialization acceleration the Budget provides:

- \$60 million over five years to help outstanding and high-potential incubator and accelerator organizations expand their services to entrepreneurs
- \$100 million through the Business Development Bank of Canada to invest in firms graduating from business accelerators.

The Scientific Research and Experimental Development tax incentive program (SR&ED) was also a beneficiary of the budget. SR&ED received \$5 million in new funding over two years to conduct more direct outreach to first-time SR&ED program claimants. The Canada Revenue Agency will also receive

new funding of \$15 million over two years to focus more resources on reviews of SR&ED programs. \$20 million has been allocated over two years to improve predictability and enhance enforcement of the SR&ED program.

In continuation of the program that was announced last year, clean energy equipment also benefited from improved tax treatments through an accelerated capital cost allowance rate to promote biogas production equity and equipment used to treat gases from waste.

The recognition of Canadian clean technology industry in the past two fiscal budgets is a big step forward. Let's roll-up our sleeves now and work together on what clean technology could mean to our economy.

CCEMC Grand Challenge

The Climate Change Emissions Management Corporation (CCEMC) is an example of funding that directly promotes commercialization and application of innovative technologies that benefit the environment and industries. We are pleased to support CCEMC's current **Grand Challenge**

As it seeks to accelerate financing of clean technology companies, Climate Change Emissions Management Corporation (CCEMC) has launched a **Grand Challenge** in which it will award a total of \$35 million to companies whose technologies have a marked impact on carbon emissions. As described by CCEMC, the goal of this challenge is to "identify processes, products and materials that can make significant inroads towards the creation of new products and markets, and subsequently reduce greenhouse gases through development of carbon-based economy."

To read more about the **Grand Challenge**, visit www.ccemc.ca

This cleantech insight was prepared by Analytica Advisors, a trusted research and advisory firm and a thought-leader in Canada's technology and innovation industries. The firm's original research and advisory work serving start-ups, financial institutions, think-tanks and governments both in Canada and internationally, combines focused primary research with decades of experience in start-up operations, global management consulting, human capital development, as well as capital market valuations.

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