

Hon. Gary Goodyear
Minister of State (Science and Technology)
House of Commons
Building: Centre Block
Suite: 646S
Ottawa, Ontario K1A 0A6

January 18, 2012

Re: Innovation Canada: A Call To Action (the "Jenkins Report")

Dear Minister Goodyear:

We are writing to you on behalf of Life Sciences Ontario (LSO), the voice of life sciences in Ontario, and BiopolisQuébec, the alliance of the leading life sciences regions in Québec, to provide our shared perspective on recommendations contained in the Jenkins Report.

The Québec-Ontario Life Sciences Corridor is an economic powerhouse. According to a study by PwC entitled "*Combining Strengths, Maximizing Impact – The Québec-Ontario Life Sciences Corridor*," the provinces of Québec and Ontario represent ~62% of Canada's total population and contribute ~57% to Canada's total GDP. More specifically, the Québec-Ontario Life Sciences Corridor represents more than 1,100 companies and generates more than \$17 billion in revenues annually.

The sector includes drug manufacturers, smaller firms developing biopharmaceutical products, universities, colleges, hospitals, research centres, contract research and manufacturing firms, agricultural organizations, clean tech entities. It also includes lawyers, accountants, engineering firms, IT firms and other consultants. The life sciences industry is the second-largest contributor to corporate R&D expenditures in Canada; and 7 of the 10 most research-intensive firms – companies that spent a high proportion of revenues on research - are in the life sciences sector.

LSO and BiopolisQuébec applaud the recent efforts of the Government of Canada to create a more innovative economy. In particular, we note the significant steps taken by the Government in the 2011 budget to build on earlier investments and to take steps to invest in innovation, education and training to promote research in leading-edge technologies and to provide Canadians with the opportunity and incentives to acquire the skills needed for jobs in today's labour market.

The Jenkins Report seeks to address a number of issues that LSO and BiopolisQuébec recognize as important to the life sciences sector; notably the need for governments to make better use of procurement to foster innovation, the need to address the shortage of risk capital and the importance of coordinated action with the governments of the provinces.

At the same time, our respective organizations have considerable concerns with the reforms recommended for the SR&ED regime as proposed in the Jenkins Report, particularly if they were to be adopted without implementation of other reforms that were recommended as they apply to SR&ED changes. More specifically, the proposed simplification of the SR&ED regime to focus on labour-related costs would have a greater negative impact on companies engaged in life sciences research and development activities, which are more capital and operational cost intensive, than in other sectors (such as software development for example) where the costs of research and development are mostly related to labour.

This negative impact would be more conspicuous in the most vulnerable, yet most innovative of companies – SMEs, start-ups and pre-commercial organizations; many of whom leverage SR&ED credits to attract further investments from larger (often foreign) companies. The use of research infrastructure, such as those in leading research hospitals and universities and put in place by substantial public investments, will likely no longer fall within the narrow, labor-focused eligibility criterion of the SR&ED tax credit as proposed in the Jenkins report.

The cumulative effects of these changes, if implemented, could see a reduction of industry-academic collaborations, reduced (foreign) investment in Canadian SMEs, and a stifling of innovation, commercialization, productivity and growth in the life sciences sector across Canada.

The Jenkins Report indicates clearly that any savings through changes to the existing SR&ED program for Canadian controlled private corporations (CCPCs) must necessarily be contingent upon a commensurate increase in direct program spending benefiting small and medium-sized enterprises (SMEs), particularly to increase the likelihood that a small, innovative company will succeed in the transition to becoming a large Canadian enterprise. Thus, implementation of any changes without commensurate contingent actions could be harmful to our industry. Support for innovation is critical for the life sciences industry and for our overall economy. We would like to reinforce the importance of maintaining this level of support for innovation during any policy considerations that will seek to administer this support more efficiently, rather than strictly seeking cost savings.

It is also important to note that any changes to the Federal base of the SR&ED credit will have consequences to provincial programs, creating the potential for a “double hit” to available support for Canadian innovators. It is critical that additional and more extensive consultation with provinces and their respective stakeholders occurs before any policy decisions are made, let alone implemented.

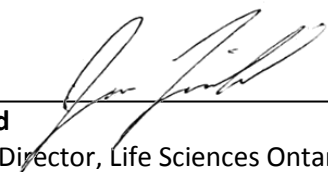
The Jenkins Report recommends that the federal government should adopt a phased approach to the implementation of the proposed changes, so that businesses will have ample time for transition planning and adjustment. Our organisations can support this approach, provided a comprehensive plan that helps emerging innovative companies in our sector is put forward after further consultation with stakeholders and the provinces.

Next Steps:

We would urge a further process of stakeholder consultation with respect to the Jenkins Report to allow organizations such as ours to provide technical comments on the reforms proposed, including those with respect to the SR&ED regime. These consultations should be held before any recommendations are adopted as policy.

We look forward to hearing from you and working with your Ministry to develop and implement a plan that will benefit our innovative sector. Please note that versions of this letter have also been sent to Prime Minister Harper and Minister Flaherty; and this letter will be posted as a public document on our website.

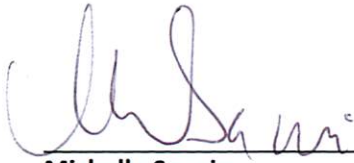
Yours truly,


Jason Field
Executive Director, Life Sciences Ontario

Jan. 12, 2012

Date





Michelle Savoie
General Manager, Montréal InVivo

January 18, 2012

Date



Carl Viel
President & CEO, Québec International

January 16, 2012

Date



Pierre Bélanger
Director General, Sherbrooke Innopole

January 18, 2012

Date



C.C.:

Hon. Sam Hamad, Québec Minister of Economic Development, Innovation, & Export Trade

Hon. Brad Duguid, Ontario Minister of Economic Development & Innovation